An eye for **numbers**

A heart for **people**

icare™

Insurance and Care NSW

Financial Statements 2016 – 17

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for the year ended 30 June 2017

Insurance and Care NSW

Certificate under Section 41C(1B) and 41C(1C) of the *Public Finance and Audit Act 1983* and Clause 7 of the Public *Finance and Audit Regulation 2015.*

In the opinion of the Board of Directors:

1. the financial statements of Insurance and Care NSW have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2015* and the Treasurer's Directions. They have also been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.
2. the financial statements for the year ended 30 June 2017 exhibit a true and fair view of the position and transactions of Insurance and Care NSW and;
3. the directors are not aware of any circumstances as at the date of this certificate which would render any particulars included in the financial statements misleading or inaccurate.

Signed on behalf of the Board of Directors:

Michael Carapiet
Chairman
Insurance and Care NSW
25 September 2017

Vivek Bhatia
Chief Executive Officer
Insurance and Care NSW
25 September 2017

INDEPENDENT AUDITOR'S REPORT

Insurance and Care New South Wales

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of Insurance and Care New South Wales (icare), which comprise the statement of financial position as at 30 June 2017, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information.

In my opinion, the financial statements:

- give a true and fair view of the financial position of icare as at 30 June 2017, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015.

My opinion should be read in conjunction with the rest of this report.

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of icare in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies
- precluding the Auditor-General from providing non-audit services.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

The Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the PF&A Act, and for such internal control as the Directors determine is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors must assess the icare's ability to continue as a going concern except where icare will be dissolved by an Act of Parliament or otherwise cease operations. The assessment must disclose, as applicable, matters related to going concern and the appropriateness of using the going concern basis of accounting.

Auditor's Responsibility for the Audit of the Financial Statements

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf. The description forms part of my auditor's report.

My opinion does *not* provide assurance:

- that icare carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.

A Oyetunji
Director, Financial Audit Services

29 September 2017
SYDNEY

statement of comprehensive income

for the year ended 30 June 2017

	Notes	2017 $'000	10 months 2016 $'000[1]
Revenue			
Service fee	2(a)	645,916	575,528
Interest revenue	2(b)	351	142
Other revenue	2(c)	352	238
Total Revenue		**646,619**	**575,908**
Expenses excluding losses			
Employee related	3(a)	100,394	63,646
Other operating expenses	3(b)	541,436	509,562
Grants and subsidies	3(c)	4,789	2,700
Total Expenses excluding losses		**646,619**	**575,908**
Net result		-	-
TOTAL COMPREHENSIVE INCOME		-	-

1 Refer Note 1(a) for 10 month period

The accompanying notes form part of these financial statements.

statement of financial position
as at 30 June 2017

	Notes	2017 $'000	2016 $'000
ASSETS			
Cash and cash equivalents	4	32,814	26,080
Receivables and prepayments	5	196,583	132,861
Property, plant and equipment	6	17,672	4,937
Intangible assets	7	599	635
Total Assets		**247,668**	**164,513**
LIABILITIES			
Payables	8	210,242	130,389
Provisions	9	24,347	21,045
Total Liabilities		**234,589**	**151,434**
Net Assets		**13,079**	**13,079**
EQUITY			
Accumulated funds		13,079	13,079
Total Equity		**13,079**	**13,079**

The accompanying notes form part of these financial statements.

statement of changes in equity

for the year ended 30 June 2017

	Notes	Accumulated Funds $'000
Balance at 1 July 2016		**13,079**
Net result for the year		**-**
Total comprehensive income for the year		**-**
Balance at 30 June 2017		**13,079**
Balance at 1 September 2015		**-**
Net result for the period		**-**
Total comprehensive income for the period		**-**
Transactions with owners in their capacity as owners		
Increase in net assets as a result of equity transfer		13,079
Balance at 30 June 2016		**13,079**

The accompanying notes form part of these financial statements.

statement of cash flows

for the year ended 30 June 2017

	Notes	2017 $'000	10 months 2016 $'000[1]
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Service fees		565,869	517,462
Interest received		180	62
Other receipts		352	50
Total Receipts		**566,401**	**517,574**
Payments			
Agent remuneration		(370,884)	(388,677)
Employee related		(99,816)	(45,656)
Grants		(4,789)	(2,705)
Other payments		(67,216)	(64,322)
Total Payments		**(542,705)**	**(501,360)**
NET CASH FLOWS FROM OPERATING ACTIVITIES	4	**23,696**	**16,214**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		-	-
Purchases of property, plant and equipment and intangibles		(16,962)	(5,910)
NET CASH FLOWS FROM INVESTING ACTIVITIES		**(16,962)**	**(5,910)**
NET INCREASE IN CASH		**6,734**	**10,304**
Opening cash and cash equivalents		26,080	-
Cash transferred in as a result of administrative restructure		-	15,776
CLOSING CASH AND CASH EQUIVALENTS	**4**	**32,814**	**26,080**

1 Refer Note 1(a) for 10 month period

The accompanying notes form part of these financial statements.

notes to the financial statements

for the year ended 30 June 2017

1. Summary of significant accounting policies

(a) Reporting entity

Insurance and Care NSW (icare) is a NSW government entity. icare is a not-for-profit entity (as profit is not its principal objective) and it has no cash generating units. The reporting entity is consolidated as part of the NSW Total State Sector Accounts.

icare was established from 1 September 2015 in accordance with the *State Insurance and Care Governance Act 2015*. As a result the 2016 balances in these financial statements only cover a 10 month period to 30 June 2016. These financial statements for the year ended 30 June 2017 have been authorised by the Chairman of the Board and the Chief Executive Officer on behalf of the Board on 25 September 2017.

(b) Basis of preparation

These financial statements are general purpose financial statements which have been prepared on an accrual basis in accordance with:

- applicable Australian Accounting Standards (which include Australian Accounting Interpretations)
- the requirements of the *Public Finance and Audit Act 1983* and the *Public Finance and Audit Regulation 2015*
- NSW Treasurer's directions.

Judgements, key assumptions and estimations management has made are disclosed in the relevant notes to the financial statements.

These financial statements have been presented on a liquidity basis following receipt of an exemption from TC17-04 by NSW Treasury that statements are presented on a current and non-current basis.

All amounts are rounded to the nearest one thousand dollars and are expressed in Australian currency which is the functional currency of the reporting entity. Tables may not add in all instances due to rounding.

(c) Statement of compliance

The financial statements and notes comply with Australian Accounting Standards, which include Australian Accounting Interpretations.

(d) Accounting for the Goods and Services Tax (GST)

Income, expenses and assets are recognised net of the amount of associated GST, except that the:

- amount of GST incurred by icare as a purchaser that is not recovered from the Australian Taxation Office is recognised as part of an asset's cost of acquisition or as part of an item of expense and
- Receivables and payables are stated with the amount of GST included.

Cash flows are included in the Statement of cash flows on a gross basis. However the GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

notes to the financial statements

for the year ended 30 June 2017

(e) The following new standards will not have any direct impact on the financial performance or position of icare.

The following new Australian Accounting Standards have not been applied and are not yet effective:

- AASB 9 *Financial Instruments*
- AASB 15, AASB 2014-5, AASB 2015-8 and AASB 2016-3 regarding Revenue from Contracts with Customers
- AASB 16 regarding leases
- AASB 1058 *Income of Not-for-profit Entities*
- AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107
- AASB 2016-6 Amendments to Australian Accounting Standards – Applying AASB 9 with AASB 4 Insurance Contracts
- AASB 2016-7 Amendments to Australian Accounting Standards-Deferral of AASB 15 for Not-for-Profit Entities
- AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities
- AASB 2017-1 Amendments to Australian Accounting Standards – Transfer of Investment Property, Annual Improvements 2014–2016 Cycle and Other Amendments
- AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014–2016 Cycle.

AASB 9 Financial Instruments and its associated amending standards specify new recognition and measurement requirements for financial assets and financial liabilities within the scope of AASB 139 Financial Instruments: Recognition and Measurement.

icare values its financial assets and financial liabilities at fair value through profit or loss. Therefore when applied, these standards will only materially impact disclosures.

The remaining standards have no direct impact on icare's financial results.

notes to the financial statements
for the year ended 30 June 2017

2. Revenue

(a) Service fees

	2017 $'000	10 months 2016 $'000
Lifetime Care and Support Authority of NSW	26,428	22,902
New South Wales Self Insurance Corporation	176,903	164,163
NSW Workers Insurance Scheme	432,028	380,698
Sporting Injuries Compensation Authority	284	324
Workers Compensation Dust Diseases Authority	9,875	7,441
Building Insurance Guarantee Corporation	223	-
Generators & Transgrid	175	-
	645,916	**575,528**

In accordance with the *State Insurance and Care Governance Act 2015*, icare provides services to Lifetime Care and Support Authority of NSW, New South Wales Self Insurance Corporation, NSW Workers Insurance Scheme, Sporting Injuries Compensation Authority, Workers Compensation Dust Diseases Authority and the Building Insurers' Guarantee Corporation.

Under the arrangement some of the Schemes' costs are incurred by icare and recovered at cost by the scheme.

These services include the provision of staff, claims handling, facilities, general business expenses and governance services. These fees are lower on an annualised basis compared to the prior financial year due to icare's operating model which is improving both scheme efficiencies and the quality of customer service provided to the people of NSW. Revenue is recognised as the related services are provided to each entity.

icare on behalf of NSW Self Insurance Corporation provides claims management and administrative support such as actuarial services to the Electricity Ministerial Assets Holding Corporation (Generators) and the Electricity Transmission Ministerial Holding Corporation (Transgrid).

(b) Investment revenue

	2017 $'000	10 months 2016 $'000
Interest revenue from bank interest	351	142
	351	**142**

Investment revenue is brought to account on an accruals basis.

notes to the financial statements

for the year ended 30 June 2017

(c) Other revenue

	2017 $'000	10 months 2016 $'000
Workers Compensation Insurance	-	187
Fees for events held	60	48
Grants contribution	276	-
Other	16	3
	352	**238**

3. Expenses excluding losses

(a) Employee related

	2017 $'000	10 months 2016 $'000
Salaries and wages (including recreation leave)	75,566	42,643
Agency short-term staff	11,649	10,084
Long service leave	1,495	5,076
Superannuation	5,970	2,978
Payroll tax and fringe benefit tax	4,938	2,449
Allowances	562	312
Workers' compensation insurance	214	104
	100,394	**63,646**

icare has made strategic decisions to insource certain capabilities such as underwriting, policy and billing and case management of severely injured workers and to grow other key capabilities such as customer service, technology and project management. Investing in these capabilities enables icare to both improve net cost to serve and thus scheme efficiencies together with the quality of customer service provided to the people of NSW.

notes to the financial statements

for the year ended 30 June 2017

(b) Other operating expenses

	2017 $'000	10 months 2016 $'000
Agent remuneration	460,768	446,344
Advertising, promotion and publicity	2,136	914
Auditor's remuneration		
Audit Office of NSW – audit of financial statements		
• icare	395	395
• Lifetime Care and Support Authority of NSW	-	77
• New South Wales Self Insurance Corporation	-	220
• NSW Workers Insurance Scheme	-	125
• Sporting Injuries Compensation Authority	-	15
• Workers Compensation Dust Diseases Authority	-	78
Other external audits	336	894
Internal audit and reviews	150	539
Building maintenance, repairs and management	232	403
Board and Committee fees	1,181	838
Consultants – Actuarial fees	11,089	11,987
Consultants – Other	6,271	1,435
Contractors	19,134	20,345
Communication expenses	713	328
Depreciation and amortisation expense	4,263	569
Insurance	379	331
Legal Fees	930	1,677
Other miscellaneous	6,624	3,387
Operating lease rental expense		
• minimum lease payments	6,052	5,335
• other related expenses	2,978	999
Other repairs and maintenance	130	188
Reinsurance administration fees	1,307	830
Printing	722	534
Risk Consulting Services	1,533	5,624
Software Licences	6,243	2,892
Stores	3,391	1,697
Training	3,855	300
Travel and vehicle expenses	624	262
	541,436	**509,562**

notes to the financial statements

for the year ended 30 June 2017

Agent remuneration is paid to Scheme Agents for services provided to icare for the insurance activities delivered through New South Wales Self Insurance Corporation and NSW Workers Insurance Scheme.

From 2017 audit fees are incurred directly by each entity.

Risk consulting services are provided to Treasury Managed Fund clients and include advisory and risk management services.

As an organisation engaged in transformation, icare uses the skills and expertise of consultants and contractors where appropriate to deliver improved outcomes to its customers.

In 2016 icare co-located its people in Sydney from five locations to one into a premise that would also accommodate its strategic investment in additional key capabilities. Co-location of staff has improved operational efficiencies, has created a more integrated organisation with a best-in-class engagement score and accommodation utilisation rates per person are within Government's required rates.

(c) Grants and subsidies

	2017 $'000	10 months 2016 $'000
Grants	4,789	2,700
	4,789	**2,700**

icare through the icare Foundation invests in programs, research and partnerships focused on prevention and post injury care that will make a difference to the mental wellbeing of our community. The icare Foundation commenced on 21 November 2016.

4. Cash and cash equivalents

	2017 $'000	2016 $'000
Cash at bank and on hand	32,814	26,080
	32,814	**26,080**

For the purposes of the statement of cash flows, cash and cash equivalents includes cash at bank and on hand, term deposits with a maturity of less than 3 months and highly liquid investments.

Cash and cash equivalent assets recognised in the statement of financial position are reconciled at the end of the financial year to the statement of cash flows as follows:

	2017 $'000	2016 $'000
Cash and cash equivalent assets (per statement of financial position)	32,814	26,080
Closing cash and cash equivalents (per statement of cash flows)	**32,814**	**26,080**

Refer to Note 12 for further information regarding credit risk, liquidity risk and market risk arising from financial instruments.

notes to the financial statements

for the year ended 30 June 2017

Reconciliation of cash flows from operating activities to Net Result

	2017 $'000	2016 $'000
Net cash flow from operating activities	23,696	16,214
Depreciation and amortisation	(4,263)	(569)
Transfer out of Intangible assets	-	(138)
Change in assets and liabilities		
Increase in receivables	63,722	132,078
(Increase) in payables	(79,853)	(130,217)
(Increase) in provisions	(3,302)	(17,368)
Net result per Statement of Comprehensive Income	**-**	**-**

5. Receivables and prepayments

	2017 $'000	2016 $'000
Service fees receivable from relevant entities		
Lifetime Care and Support Authority of NSW	4,263	4,960
New South Wales Self Insurance Corporation	68,079	7,976
NSW Workers Insurance Scheme	83,290	56,095
Sporting Injuries Compensation Authority	64	122
Workers Compensation Dust Diseases Authority	1,782	1,899
Building Insurers' Guarantee Corporation	157	-
Generators & Transgrid	175	-
Prepayments	33,895	57,935
Receivables – other	1,793	3,162
GST receivable	2,831	630
Interest receivable	254	82
	196,583	**132,861**

Receivables represent amounts due from the agencies that icare provides support and services to including Lifetime Care and Support Authority of NSW, New South Wales Self Insurance Corporation, NSW Workers Insurance Scheme Sporting Injuries Compensation Authority, Workers Compensation Dust Diseases Authority, Electricity Assets Ministerial Holding Company(Generators), Electricity Transmission Ministerial Holding Corporation (Transgrid) and the Building Insurers' Guarantee Corporation.

Prepayments primarily relate to agent remuneration paid in advance for the June 2017 quarter in relation to the insurance activities of icare.

Refer to Note 12 for further information regarding credit risk, liquidity risk and market risk arising from receivables.

notes to the financial statements

for the year ended 30 June 2017

6. Property, plant and equipment

	Capital Work in Progress $'000	Leasehold Improvements $'000	Office Machines and Equipment $'000	Computer Hardware $'000	Motor Vehicles $'000	Total $'000
At 1 July 2016 fair value						
Gross carrying amount	4,449	607	323	102	-	5,481
Accumulated depreciation and impairment	-	(454)	(27)	(63)	-	(544)
Net carrying amount	**4,449**	**153**	**296**	**39**	**-**	**4,937**
At 30 June 2017 fair value						
Gross carrying amount	2,083	19,573	323	154	32	22,165
Accumulated depreciation and impairment	-	(4,306)	(90)	(94)	(3)	(4,493)
Net carrying amount	**2,083**	**15,267**	**233**	**60**	**29**	**17,672**

Reconciliation

A reconciliation of the carrying amount of each class of property, plant and equipment at the beginning and end of the current reporting year is set out below:

	Capital Work in Progress $'000	Leasehold Improvements $'000	Office Machines and Equipment $'000	Computer Hardware $'000	Motor Vehicles $'000	Total $'000
Net carrying amount at start of the year	4,449	153	296	39	-	4,937
Additions	15,639	960	-	52	32	16,683
Transfers	(18,005)	18,005	-	-	-	-
Depreciation expense	-	(3,851)	(63)	(31)	(3)	(3,948)
Net carrying amount at end of the year	**2,083**	**15,267**	**233**	**60**	**29**	**17,672**

In 2016 Public Works managed for icare a fit for purpose fit-out of the premise in Sydney it co-located its people to.

notes to the financial statements

for the year ended 30 June 2017

	Capital Work in Progress $'000	Leasehold Improvements $'000	Office Machines and Equipment $'000	Computer Hardware $'000	Total $'000
At 1 September 2015 fair value					
Gross carrying amount	-	-	-	-	-
Accumulated depreciation and impairment	-	-	-	-	-
Net carrying amount	**-**	**-**	**-**	**-**	**-**
At 30 June 2016 fair value					
Gross carrying amount	4,449	607	323	102	5,481
Accumulated depreciation and impairment	-	(454)	(27)	(63)	(544)
Net carrying amount	**4,449**	**153**	**296**	**39**	**4,937**

Reconciliation

A reconciliation of the carrying amount of each class of property, plant and equipment at the beginning and end of the previous reporting year is set out below:

	Capital Work in Progress $'000	Leasehold Improvements $'000	Office Machines and Equipment $'000	Computer Hardware $'000	Total $'000
At 1 September 2015					
Net carrying amount at start of the year	-	-	-	-	-
Additions	4,449	607	311	12	5,379
Acquisitions through administrative restructures	-	-	12	35	47
Depreciation expense	-	(454)	(27)	(8)	(489)
Net carrying amount at end of the year	**4,449**	**153**	**296**	**39**	**4,937**

Assets are initially recognised at cost. Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire the asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the requirements of other Australian Accounting Standards. Assets acquired at no cost, or for nominal consideration, are initially recognised at their fair value at the date of acquisition. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at measurement date.

Property, plant and equipment over $5,000 are capitalised.

notes to the financial statements

for the year ended 30 June 2017

Revaluation of property, plant and equipment

Physical non-current assets are valued in accordance with the “Valuation of Physical Non-Current Assets at Fair Value” Policy and Guidelines Paper (TPP 14-01). This policy adopts fair value in accordance with AASB 116 Property, Plant and Equipment and AASB 13 Fair Value Measurement.

icare revalue each class of property, plant and equipment to ensure that the carrying amount of each asset in the class does not differ materially from its fair value at reporting date.

Depreciation is provided for on a straight line basis. The rates applied are:

Categories	2017 %	2016 %
Office machines and equipment	20.0	20.0
Computer hardware	20.0–33.3	20.0–33.3
Motor Vehicle	20.0	-

Leasehold improvements are depreciated over the unexpired term of the respective leases or the estimated life of the improvements whichever is the shorter.

Restoration costs

The estimated cost of dismantling and removing an asset and restoring the office sites is included in the cost of an asset, to the extent it is recognised as a liability.

7. Intangible assets

	Software WIP $’000	Software $’000	Total $’000
At 1 July 2016 – fair value			
Cost (gross carrying amount)	90	622	712
Accumulated amortisation and impairment	-	(77)	(77)
Net carrying amount	**90**	**545**	**635**
At 30 June 2017 – fair value			
Cost (gross carrying amount)	-	993	993
Accumulated amortisation and impairment	-	(394)	(394)
Net carrying amount	**-**	**599**	**599**

notes to the financial statements

for the year ended 30 June 2017

Reconciliation

A reconciliation of the carrying amount of each class of intangible assets at the beginning and end of the current reporting year is set out below:

	Software WIP $'000	Software $'000	Total $'000
Year ended 30 June 2017			
Net carrying amount at start of the year	90	545	635
Additions		281	281
Amortisation expense		(317)	(317)
Transfers (out)/in	(90)	90	-
Net carrying amount at end of the year	**-**	**599**	**599**

	Software WIP $'000	Software $'000	Total $'000
At 1 September 2015 – fair value			
Cost (gross carrying amount)	-	-	-
Accumulated amortisation and impairment	-	-	-
Net carrying amount	**-**	**-**	**-**
At 30 June 2016 – fair value			
Cost (gross carrying amount)	90	622	712
Accumulated amortisation and impairment	-	(77)	(77)
Net carrying amount	**90**	**545**	**635**

Reconciliation

A reconciliation of the carrying amount of each class of intangible assets at the beginning and end of the prior reporting year is set out below:

	Software WIP $'000	Software $'000	Total $'000
Period ended 30 June 2016			
Net carrying amount at start of the year	-	-	-
Additions	90	437	527
Acquisitions through administrative restructures	-	323	323
Amortisation expense	-	(77)	(77)
Transfers out[1]	-	(138)	(138)
Net carrying amount at end of the year	**90**	**545**	**635**

1 Transfers out refers to assets transferred to the Workers Compensation Dust Diseases Authority.

notes to the financial statements

for the year ended 30 June 2017

icare recognises intangible assets only if it is probable that future economic benefits will flow to icare and the cost of the asset can be measured reliably. Intangible assets are measured initially at cost. Where an asset is acquired at no or nominal cost, the cost is its fair value at the date of acquisition.

Intangible assets are subsequently measured at fair value only if there is an active market. As there is no active market for icare's intangible assets, the assets are carried at cost less any accumulated amortisation and impairment losses.

Amortisation is provided on a straight line basis for all intangible assets so as to write off the depreciable amount of each asset as it is consumed over it's useful life. The rates applied are:

Categories	2017 %	2016 %
Software	33	33

8. Payables

	2017 $'000	2016 $'000
Agents remuneration	181,822	115,979
Creditors	26,948	11,238
Accrued salaries, wages and on-costs (Refer Note 9)	1,472	3,172
Total Payables	**210,242**	**130,389**

Refer to Note 12 for further information regarding credit risk, liquidity risk and market risk arising from payables.

9. Provisions

	2017 $'000	2016 $'000
Employee benefits and related on costs		
Annual leave entitlements including oncosts	6,489	5,237
Long service leave entitlements including oncosts	16,291	15,200
Restoration provision	1,567	608
Total Provisions	**24,347**	**21,045**
Aggregate employee benefits and related on-costs		
Annual leave entitlements including oncosts	6,489	5,237
Long service leave entitlements including oncosts	16,291	15,200
Accrued salaries, wages and on-costs	1,472	3,135
	24,252	**23,572**

notes to the financial statements

for the year ended 30 June 2017

Employee Benefits and Other Provisions

(i) Salaries and Wages, Annual Leave, Sick Leave and On-Costs

Salaries and wages (including non-monetary benefits) and paid sick leave that are expected to be settled wholly within 12 months after the end of the year in which the employees render the service are recognised and measured at the undiscounted amounts of the benefits.

Annual leave is not expected to be settled wholly before twelve months after the end of the annual reporting year in which the employees render the related service. As such, it is required to be measured at present value in accordance with *AASB 119 Employee Benefits*. Actuarial advice confirmed using a nominal approach plus the annual leave on-costs on the annual leave liability (using 2.4% of the nominal value of annual leave) to present value of the annual leave liability. icare has determined that the effect of discounting is immaterial to the annual leave liability.

Unused non-vesting sick leave does not give rise to a liability as it is not considered probable that sick leave taken in the future will be greater than the benefits accrued in the future.

(ii) Superannuation and Long Service Leave

The superannuation expense for accumulation funds is calculated as a percentage of employees' salary. For defined benefits funds the expense is calculated as a multiple of the employee's superannuation contributions.

(iii) Consequential on-costs

Consequential costs to employment are recognised as liabilities and expenses where the employee benefits to which they relate have been recognised. This includes outstanding amounts of payroll tax, workers' compensation insurance premiums and fringe benefits tax.

It is expected that the leave provisions and related on-costs will be settled over the following year:

	2017 $'000	2016 $'000
Expected to be settled no more than twelve months		
Annual leave and related on-costs	6,489	5,237
Long service leave and related on-costs	1,140	1,004
	7,629	**6,241**
Expected to be settled after more than twelve months		
Long service leave and related on-costs	**15,151**	**12,647**

(iv) Other provisions

A restoration provision is recognised for the estimate of future payments for restoration upon termination of the leases of the current office premises. The effect of discounting is immaterial.

notes to the financial statements

for the year ended 30 June 2017

10. Commitments for expenditure

	2017 $'000	2016 $'000
Operating lease commitments		
Future non-cancellable operating lease rentals not provided for and payable:		
Not later than one year	7,516	1,215
Later than one year but not later than five years	20,863	1,261
Later than five years	3,749	-
Total (including GST)	**32,128**	**2,476**

Expenditure commitments for Insurance and Care NSW include input tax credits of $2.9m (2016: $0.2m) which are expected to be recoverable from the Australian Taxation Office. icare has a lease commitments with Government Property NSW for occupancy of its accommodation.

11. Contingent liabilities and contingent assets

icare does not have any known contingent liabilities or assets at reporting date.

notes to the financial statements

for the year ended 30 June 2017

12. Financial instruments

icare's principal financial instruments are outlined below. These financial instruments arise directly from icare's operations or are required to finance these operations. icare does not enter into or trade financial instruments, including derivative instruments, for speculative purposes.

icare's main risks arising from financial instruments are outlined below, together with icare's objectives, policies and processes for measuring and managing risk. Further quantitative and qualitative disclosures are included throughout these financial statements.

icare's Board has overall responsibility for the establishment and oversight of risk management and reviews and agrees policies for managing each of these risks. Risk management policies are established to identify and analyse the risks faced by icare to set risk limits and controls and to monitor risks. Compliance with policies is reviewed by the Risk, Compliance and Audit Committee on a continual basis.

(a) Financial instrument categories

	Notes	Category	Carrying Amount 2017 $'000	Carrying Amount 2016 $'000
Financial Assets				
Class:				
Cash and cash equivalents	4	N/A	32,814	26,080
Receivables[1]	5	Loans and Receivables – at fair value	159,857	74,296
Financial Liabilities				
Class:				
Payables[2]	8	Financial liabilities – at fair value	210,242	72,540

Notes:
1 Excludes statutory receivables and prepayments (i.e. not within scope of AASB 7)
2 Excludes statutory payables and unearned revenue (i.e. not within scope of AASB 7).

No collateral is held by icare. icare has not granted any financial guarantees.

notes to the financial statements

for the year ended 30 June 2017

(b) Liquidity risk

Liquidity risk is the risk that icare will be unable to meet its payment obligations when they fall due. During the current year there were no loans payable. No assets have been pledged as collateral. icare is fully funded by the entities to which it provides services.

The liabilities are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in NSW Treasury Circular 11/12. For small business suppliers, where terms are not specified, payment is made not later than 30 days from date of receipt of a correctly rendered invoice. For other suppliers, if trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice is received.

The table below summarises the maturity profile of icare financial liabilities, together with the interest rate exposure.

Interest rate exposure of financial liabilities

		Interest Rate Exposure		
	Nominal Amount $'000	Fixed Rate $'000	Variable Rate $'000	Non-Interest Bearing $'000
2017				
Payables	210,242	-	-	210,242
2016				
Payables	72,540	-	-	72,540

Maturity Analysis of financial liabilities

	Maturity Dates		
	< 1 year $'000	1–5 years $'000	> 5 years $'000
2017			
Payables	210,242	-	-
2016			
Payables	72,540	-	-

The amounts disclosed are the contractual undiscounted cash flows of each class of financial liabilities based on the earliest date on which icare can be required to pay.

icare does not have any loans payable and no assets have been pledged as collateral. icare's exposure to liquidity risk is deemed insignificant due to the current assessment of risk.

notes to the financial statements

for the year ended 30 June 2017

(c) Credit risk

Credit risk arises where there is the possibility of icare's debtors defaulting on their contractual obligations, resulting in a financial loss to icare. The maximum exposure to credit risk at balance date is generally represented by the carrying amount of the financial assets net of any allowance for impairment as indicated in the Statement of Financial Position (refer Note 5).

Credit risk arises from the financial assets of icare, including cash and receivables. No collateral is held by icare. icare has not granted any financial guarantees.

(i) Cash

Cash comprises cash on hand and bank balances within the NSW Treasury Banking System. Interest is earned on daily bank balances at the Reserve Bank of Australia's cash rate.

(ii) Receivables

All trade debtors are recognised as amounts receivable as at balance date. Collectability of trade debtors is reviewed on an ongoing basis. An allowance for impairment is raised when there is objective evidence that icare will not be able to collect all amounts due. All debts are to government agencies and the credit terms are monitored by management. No interest is earned on trade debtors.

(d) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

icare has no significant exposure to market risk as it does not hold any investments or securities traded in the market.

(e) Interest rate risk

Interest Rate Risk is the risk that the (fair) value of a financial instrument will fluctuate because of changes in market interest rates. The value of Insurance and Care NSW's liabilities is also affected by interest rate fluctuations.

(i) Exposure

Interest rate risk arises as a result of icare holding financial instruments which are subject directly or indirectly to changes in value as a result of interest rate fluctuations. icare liabilities are similarly subject directly or indirectly to changes in value as a result of interest rate fluctuations.

(ii) Quantitative analysis of exposure

		Fixed Interest Rates		
	Floating Interest Rate	< 1 year $'000	1–5 years $'000	> 5 years $'000
2017				
Class				
Cash	32,814			
Assets	32,814			
2016				
Class				
Cash	26,080	-	-	-
Assets	**26,080**	**-**	**-**	**-**

notes to the financial statements

for the year ended 30 June 2017

(f) Fair value estimation

The carrying amounts of Insurance and Care NSW financial assets and liabilities at the end of the reporting year approximated their fair values as all financial assets and liabilities held were either at fair value at the end of the reporting year or were short term in nature.

13. Related party disclosures

The entity's key management personnel are the Board of Directors of icare, the Chief Executive Officer of icare and their direct reports. Compensation received is as follows:

	2017 $'000
Short term employee benefits	
Salaries	6,113
Other monetary allowances	-
Non-monetary benefits	-
Other long-term employee benefits	998
Post-employment benefits	-
Termination benefits	473
Total Remuneration	**7,584**

During the year, the entity did not enter into any transactions with key management personnel, their close family members and controlled or jointly controlled entities thereof on arm's length terms and conditions.

End of audited financial statements

dust diseases care

dust diseases care financial statements

for the year ended 30 June 2017

Notes to the financial statements

WORKERS COMPENSATION DUST DISEASES AUTHORITY OF NSW

Actuarial Certificate
Outstanding claims liabilities at 30 June 2017

PricewaterhouseCoopers Consulting (Australia) Pty Ltd (PwC) has been requested by Insurance and Care NSW ("icare") acting for the Workers' Compensation Dust Diseases Authority of NSW ("DDA") to make estimates of outstanding claims liabilities of the DDA under the *Workers Compensation (Dust Diseases) Act* as at 30 June 2017.

Data

PwC has relied on historical data and other quantitative and qualitative information supplied by icare, without audit or independent verification. We did, however, review this information for reasonableness and internal consistency, where possible. The accuracy of our results is dependent upon the accuracy and completeness of the underlying data.

Basis of Our Estimates

We have made central estimates of the outstanding claims liabilities, which means that our assumptions have been selected to yield estimates that are not knowingly above or below the ultimate liabilities. Our estimates are inflated and discounted, and include an allowance for future expenses and recoveries associated with the claims liabilities. Our valuation has separately considered expected payments for claims that have already been reported ("Known Claims"), and for claims which have not yet been reported but for which the exposure to dust has already occurred and a disease will eventually emerge ("Future Claims").

The estimates do not include any allowance for a risk margin.

Valuation Results

The PwC central estimates of the outstanding claims liabilities, net of recoveries, for Known Claims and Future Claims as at 30 June 2017 is **$1,679.2 m.** The breakdown of the result between Known Claims and Future Claims are shown in the following table.

Component	Net Central Estimate ($m)
Known Claims	792.3
Future Claims	886.9
Total Liability	**1,679.2**

It is a decision for the DDA as to the amount adopted in the accounts.

Uncertainty

There is a limitation upon the accuracy of the estimates in this certificate in that there is an inherent uncertainty in any estimate of outstanding claim liabilities. This is due to the fact that the ultimate liability for claims is subject to the outcome of events yet to occur. In the case of estimating dust disease claims, this is further exacerbated by the long latency periods, difficulties in obtaining reliable data relating to timing and exposure of potential claimants, and general uncertainty surrounding the impact of future medical advancements and benefit reforms on the DDA's liabilities.

In our judgement, we have employed techniques and assumptions that are appropriate, and we believe the conclusions presented herein are reasonable, given the information currently available. However, it should be recognised that future claim experience is likely to deviate, perhaps materially, from our estimates.

Report

Full details of data, methodology, assumptions and results are set out in our valuation report dated 31 August 2017.

Relevant Standards

Our estimates and reports were prepared, to the best of our knowledge, in compliance with Australian Accounting Standard AASB137 and the Institute of Actuaries of Australia's Professional Standard 300, which relates to estimation of outstanding claims liabilities.

Andrew Smith	Gavin Moore
FIAA	FIAA
31 August 2017	31 August 2017

statement by the chairman and chief executive officer

for the year ended 30 June 2017

Workers Compensation (Dust Diseases) Authority

Certificate under Section 41C(1B) and 41C(1C) of the *Public Finance and Audit Act 1983* and Clause 7 of the *Public Finance and Audit Regulation 2015*.

In the opinion of the Board of Directors:

1. the financial statements of Workers Compensation (Dust Diseases) Authority have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2015* and the Treasurer's Directions. They have also been prepared in accordance with Australian Accounting Standards (which include Australian Accounting Interpretations) and other authoritative pronouncements of the Australian Accounting Standards Board.
2. the financial statements for the year ended 30 June 2017 exhibit a true and fair view of the position and transactions of Workers Compensation (Dust Diseases) Authority; and
3. the directors are not aware of any circumstances as at the date of this certificate which would render any particulars included in the financial statements misleading or inaccurate.

Signed on behalf of the Board of Directors.

Michael Carapiet
Chairman/Director
Insurance and Care NSW
25 September 2017

Vivek Bhatia
Chief Executive Officer
Workers Compensation (Dust Diseases) Authority and Insurance and Care NSW
25 September 2017

INDEPENDENT AUDITOR'S REPORT

Workers' Compensation (Dust Diseases) Authority

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of the Workers' Compensation (Dust Diseases) Authority (the Authority), which comprise the statement of financial position as at 30 June 2017, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information.

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 30 June 2017, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015.

My opinion should be read in conjunction with the rest of this report.

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the Authority in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies
- precluding the Auditor-General from providing non-audit services.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

The Chief Executive's Responsibility for the Financial Statements

The Chief Executive Officer is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the PF&A Act, and for such internal control as the Chief Executive Officer determines is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Executive Officer must assess the Authority's ability to continue as a going concern except where the Authority will be dissolved by an Act of Parliament or otherwise cease operations. The assessment must disclose, as applicable, matters related to going concern and the appropriateness of using the going concern basis of accounting.

Auditor's Responsibility for the Audit of the Financial Statements

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf. The description forms part of my auditor's report.

My opinion does *not* provide assurance:

- that the Authority carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.

A Oyetunji
Director, Financial Audit Services

29 September 2017
SYDNEY

statement of comprehensive income

for the year ended 30 June 2017

	Notes	2017 $'000	2016 $'000
Revenue			
Fees & Levies	2(a)	115,879	107,224
Investment revenue	2(b)	86,989	48,206
Other revenue	2(c)	3,192	2,131
Total Revenue		**206,060**	**157,561**
Expenses excluding losses			
Scheme costs	3(a)	178,850	138,187
Service fees	3(b)	10,204	7,640
Other operating expenses	3(c)	2,930	4,117
Grants and subsidies	3(d)	5,313	5,392
Total expenses excluding losses		**197,297**	**155,336**
Impairment loss on software no longer in use	9	-	(1,844)
Increase in impairment losses on receivables	6	(416)	(236)
Net result		**8,347**	**145**
Other comprehensive income			
Items that will not be reclassified to net result			
Net increase in property, plant and equipment revaluation	8	-	1,333
Total other comprehensive income		**-**	**1,333**
TOTAL COMPREHENSIVE INCOME		**8,347**	**1,478**

The accompanying notes form part of these financial statements.

statement of financial position

as at 30 June 2017

	Notes	2017 $'000	2016 $'000
ASSETS			
Cash and cash equivalents	4	18,863	34,500
Investments	5	1,139,500	1,037,328
Receivables	6	542,435	696,209
Assets held for sale	7	5,373	-
Property, plant and equipment	8	265	5,824
Intangible assets	9	-	-
Total Assets		**1,706,436**	**1,773,861**
LIABILITIES			
Payables	11	6,970	22,915
Claims Provision	12	1,679,173	1,739,000
Total Liabilities		**1,686,143**	**1,761,915**
Net Assets		**20,293**	**11,946**
EQUITY			
Reserves		2,598	2,598
Accumulated funds		17,695	9,348
Total Equity		**20,293**	**11,946**

The accompanying notes form part of these financial statements.

statement of changes in equity

for the year ended 30 June 2017

	Notes	Accumulated Funds $'000	Asset Revaluation Surplus $'000	Total $'000
Balance at 1 July 2016		9,348	2,598	11,946
Net result for the year		8,347	-	8,347
Other comprehensive income				
Net increase in property, plant and equipment revaluation surplus	8	-	-	-
Total other comprehensive income		**-**	**-**	**-**
Total comprehensive income for the year		**8,347**	**-**	**8,347**
Balance at 30 June 2017		**17,695**	**2,598**	**20,293**
Balance at 1 July 2015		8,304	1,265	9,569
Net result for the year		145	-	145
Net increase in property, plant and equipment revaluation surplus	8	-	1,333	1,333
Total other comprehensive income		**-**	**1,333**	**1,333**
Total comprehensive income for the year		**145**	**1,333**	**1,478**
Defined benefit superannuation liability transfer		899	-	899
Balance at 30 June 2016		**9,348**	**2,598**	**11,946**

The accompanying notes form part of these financial statements.

statement of cash flows

for the year ended 30 June 2017

	Notes	2017 $'000	2016 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Fees & levies received		107,703	108,673
Compensation payments		(89,077)	(91,581)
Net Cash Flows from Scheme Activities		**18,626**	**17,092**
Receipts			
Proceeds from sale of investments		1,024,297	578,710
Interest received		23,543	21,887
Other		3,607	2,286
Total Receipts Excluding Scheme Activities		**1,051,447**	**602,883**
Payments			
Purchases of investments		(1,065,171)	(634,949)
Service fees		(8,180)	(7,640)
Other operating expenses		(7,046)	(4,084)
Grants and subsidies		(5,313)	(5,390)
Total Payments Excluding Scheme Activities		**(1,085,710)**	**(652,063)**
NET CASH FLOWS FROM OPERATING ACTIVITIES	**4**	**(15,637)**	**(32,088)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of plant and equipment		-	(28)
NET CASH FLOWS FROM INVESTING ACTIVITIES		**-**	**(28)**
NET INCREASE/(DECREASE) IN CASH		**(15,637)**	**(32,116)**
Opening cash and cash equivalents		**34,500**	**66,616**
CLOSING CASH AND CASH EQUIVALENTS	**4**	**18,863**	**34,500**

The accompanying notes form part of these financial statements.

notes to the financial statements

for the year ended 30 June 2017

1. Summary of significant accounting policies

(a) Reporting entity

The Workers' Compensation (Dust Diseases) Authority (the Authority) is a NSW government entity. The Authority is a not-for-profit entity (as profit is not its principal objective) and it has no cash generating units. The reporting entity is consolidated as part of the NSW Total State Sector Accounts.

icare provides services at arms-length to the Authority.

These financial statements for the year ended 30 June 2017 have been authorised for issue by the Chairman of the Board and the Chief Executive Officer on 25 September 2017.

(b) Basis of preparation

The Authority's financial statements are general purpose financial statements which have been prepared using the accrual basis of accounting and are in accordance with:

- applicable Australian Accounting Standards (which include Australian Accounting Interpretations) and
- the requirements of the *Public Finance and Audit Act 1983* and *Public Finance and Audit Regulation 2015*.
- NSW Treasurer's directions.

Investments backing claims liabilities are measured at fair value. All other assets and liabilities are initially measured at historical cost and then at fair value.

All amounts are rounded to the nearest one thousand dollars and are expressed in Australian currency which is the functional currency of the reporting entity.

These financial statements have been presented on a liquidity basis following receipt of an exemption from TC17-04 by NSW Treasury that statements are presented on a current and non-current basis.

Tables may not add in all instances due to rounding.

(c) Statement of compliance

The financial statements and notes comply with Australian Accounting Standards which include Australian Accounting Interpretations.

(d) Judgements, key assumptions and estimations

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Judgements, key assumptions and estimations management has made are disclosed in the relevant notes to the financial statements.

(e) Accounting for the Goods and Services Tax (GST)

Income, expenses and assets are recognised net of the amount of GST, except that:

- the amount of GST incurred by the Authority as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of the cost of acquisition of the asset or as part of an item of expense and
- receivables and payables are stated with the amount of GST included.

Cash flows are included in the Statement of cash flows on a gross basis. However the GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

notes to the financial statements

for the year ended 30 June 2017

(f) Equity and reserves

Asset Revaluation surplus

The revaluation surplus is used to record increments and decrements on the revaluation of property, plant and equipment. This accords with the Authority's policy on the revaluation of property, plant and equipment as discussed in note 8.

Accumulated funds

The category 'Accumulated Funds' includes all current and prior period retained funds.

(g) Comparative information

Except when an Australian Accounting Standard permits or requires otherwise, comparative information is disclosed in respect of the previous period for all amounts reported in the financial statements. Comparative data has been reclassified when necessary to enhance comparability in respect of changes in the current year.

(h) Changes in accounting policy, including new or revised Australian Accounting Standards.

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the reporting period ending 30 June 2017. The following new Standards will not have any direct impact on the financial performance or position of the Authority:

- AASB 9 *Financial Instruments*
- AASB 15, AASB 2014-5, AASB 2015-8 and AASB 2016-3 regarding Revenue from Contracts with Customers
- AASB 16 regarding leases
- AASB 1058 Income of *Not-for-profit Entities*.
- AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107
- AASB 2016-6 Amendments to Australian Accounting Standards – Applying AASB 9 with AASB 4 Insurance Contracts
- AASB 2016-7 Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities
- AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities
- AASB 2017-1 Amendments to Australian Accounting Standards – Transfer of Investment Property, Annual Improvements 2014–2016 Cycle and Other Amendments
- AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014–2016 Cycle.

AASB 9 Financial Instruments and its associated amending standards specify new recognition and measurement requirements for financial assets and financial liabilities within the scope of AASB 139 Financial Instruments: Recognition and Measurement.

The Authority values its financial assets and financial liabilities at fair value through profit or loss. Therefore when applied, these standards will only materially impact disclosures.

The remaining standards have no direct impact on the Authority's financial results.

notes to the financial statements

for the year ended 30 June 2017

2. Revenue

(a) Fees and levies

	2017 $'000	2016 $'000
Levy contributions		
Self-insurer – NSW Self Insurance Corporation	12,254	11,921
Specialised insurer and other self insurers	12,351	11,834
NSW Workers Insurance Scheme	91,274	83,469
Total fees and levies	**115,879**	**107,224**

The Authority's funds are generated from dust diseases levies collected from NSW Workers Insurance Scheme, Specialised and Self-insurers, under the *Workers' Compensation (Dust Diseases) Act 1942* (the Act). The levy revenue is recognised when it falls due and receivable by the Authority.

(b) Investment revenue

	2017 $'000	2016 $'000
Interest revenue from bank interest and TCorpIM cash fund	288	397
TCorp Investment facilities	24,543	31,674
Other investment facilities	50	48
Dividend income	8,734	8,030
Realised Gains/(Losses) on investments	54,566	7,059
Unrealised Gains/(Losses) on investments	(1,192)	998
Total investment revenue	**86,989**	**48,206**

Investment revenue is brought to account on an accruals basis. Interest revenue is recognised using the effective interest method as set out in AASB 139 Financial Instruments: Recognition and Measurement. Dividends on quoted shares are deemed to accrue when the relevant shareholding becomes ex-dividend. Differences between the net market values of investments at the end of the reporting period and their net market values at the end of the previous reporting period (or cost of acquisition, if acquired during the reporting period) are recognised as revenue in the Statement of Comprehensive Income.

The DDA is in the process of divesting from direct equities and investing in icare specific trusts during the year. This has resulted in a significant increase in realised gains this year.

notes to the financial statements

for the year ended 30 June 2017

(c) Other revenue

	2017 $'000	2016 $'000
Compensation recoveries under Section 8E of the Act	2,825	1,657
Rendering of services – Occupational respiratory health assessments	316	447
Solicitors' production fees	51	27
Total other revenue	**3,192**	**2,131**

3. Expenses

(a) Scheme costs

	2017 $'000	2016 $'000
(i) Compensation payments made during the year		
Compensation to workers	20,256	19,161
Compensation to dependants	36,697	34,965
Lump sum awards to dependants	21,249	26,580
Healthcare services and funeral benefits	12,392	8,525
	90,594	**89,231**
(ii) Medical examination of workers		
Medical fees and other related supplies	791	735
Workers travelling expenses	20	15
	811	**750**
(iii) Movement in provision for compensation (Refer note 12)		
Finance costs	27,527	34,700
Movement in provision for compensation – known claims	(50,122)	27,400
Movement in provision for compensation – estimated future claims	(37,232)	(168,500)
Total net movement during the year	**(59,827)**	**(106,400)**
Total Scheme costs	**31,578**	**(16,419)**
Movement in contributions from insurers yet to be levied (Note 6)	147,272	154,606
Total Scheme costs including movement in contribution receivable	**178,850**	**138,187**

Finance costs relate to movement in the carrying amount of the outstanding liability that reflects the passage of time associated with the use of discount rate determining the value of the outstanding claims liability (Refer Note 12).

notes to the financial statements

for the year ended 30 June 2017

(b) Service fees

	2017 $'000	2016 $'000
Service fees	**10,204**	**7,640**

In accordance with the *State Insurance and Care Governance Act 2015* from 1 September 2015 the Authority receives services from Insurance and Care NSW (icare). Under the arrangement most of the Authority's costs are incurred by icare and recovered at cost from the Authority. These services include the provision of staff, claims handling, facilities, general business expenses and governance services.

The service fee paid to icare in 2015-16 included $77,900 for the audit of the financial statements performed by the Audit Office of NSW.

The Authority's key management personnel are the Board of Directors of icare, the Chief Executive Officer of icare and their direct reports. All transactions with these key management personnel are at arms length and are included in the service fee paid to icare for those personnel remunerated by icare.

(c) Other operating expenses

	2017 $'000	2016 $'000
Personnel services		
Salaries and wages (including annual leave)	-	654
Long service leave	-	242
Agency short-term staff	-	111
Superannuation – defined contribution plans	-	51
Payroll tax and fringe benefits tax	-	34
Workers' compensation insurance	-	15
Total Personnel Services	**-**	**1,107**
Depreciation and amortisation (refer note 8 & 9)	186	208
Investment management fees	2,268	2,425
Other	375	243
Contractors	-	44
Buildings maintenance, repairs and management	-	32
Insurance	-	21
Legal fees	-	19
Board members' fees and allowances	-	12
Auditor's remuneration – audit of the financial statements	85	5
Bad debts	-	1
Consultants – other	16	-
Total Other operating expenses	**2,930**	**4,117**

notes to the financial statements

for the year ended 30 June 2017

As explained in Note 3 (b) the majority of the Authority's costs are incurred by icare and are shown in the Service fee charged by icare for this service. As icare was only created on 1 September 2015 the prior period costs include 2 months of expenditure incurred by the Authority prior to the commencement of icare providing those services.

(d) Grants and subsidies

	2017 $'000	2016 $'000
Dust Diseases Tribunal funding	5,313	5,208
Research projects and provision of advice	-	184
	5,313	**5,392**

Grants for research projects and advice are now undertaken by icare and recouped in the service fee.

4. Cash and cash equivalents

	2017 $'000	2016 $'000
Cash at bank and on hand	4,444	7,461
Short-term deposits:		
TCorpIM Cash fund	8,041	6,608
Cash – Other Deposits at TCorp	5,492	11,830
Cash – Other	886	8,601
	18,863	**34,500**

For the purposes of the Statement of Cash Flows, cash and cash equivalents includes cash at bank, cash on hand, term deposits of less than 12 months duration less bank overdraft.

Cash and cash equivalent assets recognised in the Statement of financial position are reconciled at the end of the financial year to the Statement of cash flows as follows:

	2017 $'000	2016 $'000
Cash and cash equivalent assets (per Statement of financial position)	18,863	34,500
Closing cash and cash equivalents (per Statement of cash flows)	**18,863**	**34,500**

Refer to Note 14 for further information regarding credit risk, liquidity risk and market risk arising from financial instruments.

notes to the financial statements

for the year ended 30 June 2017

	2017 $'000	2016 $'000
Reconciliation of Net Cash Flows from Operating Activities to Net Result		
Net cash used in operating activities	(15,637)	(32,088)
Assets written off/impaired	-	(1,844)
Depreciation and amortisation	(186)	(208)
Loss on disposal	-	-
Net investment purchases	40,874	56,239
Net cashflows from investment operating activities	63,481	26,319
Defined Benefit Superannuation transfer	-	(899)
Change in assets and liabilities		
(Decrease) in receivables:	(139,428)	(154,796)
(Increase) in payables	(584)	(1,435)
Decrease in claims provisions	59,827	108,857
Net result	**8,347**	**145**

5. Investments

	2017 $'000	2016 $'000
TCorpIM Funds	659,223	326,230
TCorp Fixed/Variable Interest discrete portfolio	480,051	432,024
Australian and International Equities	-	236,144
Derivatives	226	1,708
Other Investments	-	41,222
Total Financial Assets at Fair Value	**1,139,500**	**1,037,328**

The main purpose of the Authority's investments are to meet its claim liabilities.

Investments are held primarily for the purpose of being traded.

All of the Authority's financial assets and financial liabilities are at fair value through profit or loss – classified as held for trading.

The DDA is in the process of divesting from direct equities and investing in icare specific trusts during the year.

Purchases and sales of investments are recognised on trade date – the date on which the Authority commits to purchase or sell the asset.

notes to the financial statements

for the year ended 30 June 2017

Derivatives

Derivatives include interest rate swaps and futures, swaptions, credit default swaps, cross currency swaps and forward foreign currency contracts and options on interest rates, foreign currencies and equities. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Derivative financial instruments are subsequently re-valued at fair value.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently marked to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Authority designates certain derivatives as either; (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

Hedging strategies are determined by the Investment & Asset Committee, within the investment strategy for the Authority. Hedging is conducted at two levels:

- At the overall fund level, where TCorp decides on instruments and transaction parameters. Transactions are implemented in bond options and swaptions by TCorp and in equity options by SSGM.
- In underlying portfolio's, by appointed investment managers who have discretion to implement hedges within mandate boundaries.

The fair values of any derivative financial instruments used for hedging purposes, if any, are disclosed in Note 14.

The Authority seeks to manage exposure to investment risk so that it can generate sufficient returns to meet the scheme's current and future liabilities and mitigate the risk that the assets will be insufficient to meet their liabilities. Designation of investments at fair value through profit or loss is consistent with this risk management strategy as it allows for these investments to be recorded at fair value and for any gains or losses in the movement in their fair value to be recognised in the net result for the year.

The movement in the fair value of the investments incorporates distributions received as well as unrealised movements in fair value and is reported in the line item 'investment revenue'.

All financial assets, except those measured at fair value through profit or loss, are subject to an annual review for impairment. An allowance for impairment is established when there is objective evidence that the Authority will not be able to collect all amounts due.

notes to the financial statements

for the year ended 30 June 2017

6. Receivables

	2017 $'000	2016 $'000
Contributions from insurers	525,882	673,153
Investments receivable	3,566	18,451
Other receivables	8,468	4,780
less: Allowance for impairment	(996)	(580)
Dust Diseases levy hindsight	5,244	-
Occupational respiratory health assessments	-	109
Fees and levies	-	81
GST receivable	138	73
Debtors – workers and dependants	-	60
Service fees	88	-
Interest receivable	45	80
Prepayments	-	2
Total Receivables	**542,435**	**696,209**
Movement in the allowance for impairment		
Balance at 1 July	580	344
Increase/(decrease) in allowance recognised in profit or loss	416	236
Balance at 30 June	**996**	**580**

The outstanding contributions receivable asset represents the future contributions receivable to pay total costs relating to outstanding claims. Reimbursements receivable are recognised as a separate asset when it is virtually certain that the reimbursement will be received if the Authority settles the obligation and shall not exceed the amount of the related provision.

The cost of compensation claims and other costs of the Authority are recovered from insurers who pass this cost on to employers through a levy included in their workers' compensation insurance premiums in accordance with sections 6(6) and 6(7D) of the *Workers' Compensation (Dust Diseases) Act 1942*. The levies are assessed each year to ensure that the Authority has sufficient funding for the coming year. This assessment gives the Authority certainty that outstanding contributions receivable will be recovered through future levies.

Details regarding credit risk, liquidity risk and market risk of the above receivables are disclosed in Note 14.

notes to the financial statements
for the year ended 30 June 2017

7. Assets held for Sale

	Buildings $'000
At 30 June 2017	
Gross carrying amount	5,500
Accumulated depreciation and impairment	(127)
Net carrying amount	**5,373**

The Authority made a decision in March 2017 to sell its building holdings in the next 12 months. These holdings comprise the entirety of levels 2, 3, 4, 7 and 14, of 82 Elizabeth St Sydney. They are Lots 2, 3, 4 and 14 in Strata Plan 10878, Lot 20 in Strata Plan 17319 and Lot 27 in Strata Plan 60098.

Assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

notes to the financial statements

for the year ended 30 June 2017

8. Property, plant and equipment

	Buildings $'000	Motor Vehicles $'000	Office Equipment $'000	Scientific and Medical Equipment $'000	Total $'000
At 1 July 2016 – fair value					
Gross carrying amount	5,500	661	20	124	6,305
Accumulated depreciation and impairment	(24)	(430)	(13)	(14)	(481)
Net carrying amount	**5,476**	**231**	**7**	**110**	**5,824**
At 30 June 2017 – fair value					
Gross carrying amount	-	661	20	124	805
Accumulated depreciation and impairment	-	(496)	(14)	(30)	(540)
Net carrying amount	**-**	**165**	**6**	**94**	**265**
Reconciliation					
Year ended 30 June 2017					
Net carrying amount at start of financial year	5,476	231	7	110	5,824
Transfer to held for sale (refer Note 7)	(5,373)	-	-	-	(5,373)
Depreciation expense	(103)	(66)	(1)	(16)	(186)
Net carrying amount at end of financial year	**-**	**165**	**6**	**94**	**265**
At 1 July 2015 – fair value					
Gross carrying amount	4,432	661	20	95	5,208
Accumulated depreciation and impairment	(161)	(364)	(11)	(2)	(538)
Net carrying amount	**4,271**	**297**	**9**	**93**	**4,670**
At 30 June 2016 – fair value					
Gross carrying amount	5,500	661	20	124	6,305
Accumulated depreciation and impairment	(24)	(430)	(13)	(14)	(481)
Net carrying amount	**5,476**	**231**	**7**	**110**	**5,824**
Reconciliation					
Year ended 30 June 2016					
Net carrying amount at start of financial year	4,271	297	9	93	4,670
Additions	-	-	-	29	29
Net revaluation increment	1,333	-	-	-	1,333
Depreciation expense	(128)	(66)	(2)	(12)	(208)
Net carrying amount at end of financial year	**5,476**	**231**	**7**	**110**	**5,824**

notes to the financial statements

for the year ended 30 June 2017

The capitalisation threshold for property, plant and equipment is $5,000 and above individually (or forming part of a network costing more than $5,000).

Fair value

Physical assets are valued in accordance with the *'Valuation of Physical Non-Current Assets at Fair Value'* Policy and Guidelines Paper (TPP 14-01). This policy adopts fair value in accordance with AASB 13 Fair Value Measurement and AASB 116 Property, Plant and Equipment.

Non-specialised assets with short useful lives are measured at depreciated historical cost, as a surrogate for fair value.

Revaluation of property, plant and equipment

The Authority revalues each class of property, plant and equipment at least every three years to ensure that the carrying amount of each asset in the class does not differ materially from its fair value at reporting date.

The last revaluation of the Authority's building was completed on 31 March 2017 and Scientific and Medical Equipment on 6 February 2015. Both valuations were based on an independent assessment.

Non-specialised assets with short useful lives are measured at depreciated historical cost as an approximation of fair value. The Authority has assessed that any difference between fair value and depreciated historical cost is unlikely to be material.

For other assets valued using other valuation techniques, any balances of accumulated depreciation at the revaluation date in respect of those assets are credited to the asset accounts to which they relate. The net asset accounts are then increased or decreased by the revaluation increments or decrements

Depreciation of property plant and equipment

Depreciation is provided for on a straight-line basis for all depreciable assets so as to write off the depreciable amount of each asset as it is consumed over its useful life to the Authority. All material separately identifiable components of assets are depreciated over their useful lives.

The following depreciation rates were used:

Categories	2017 %	2016 %
Buildings	3	3
Motor vehicles: passenger cars	20	20
Motor vehicles: mobile respiratory unit	10	10
Office equipment	20	20
Scientific and medical equipment	5–12.5	5–12.5

notes to the financial statements

for the year ended 30 June 2017

9. Intangible assets

	Computer Software $'000	Software WIP $'000	Total $'000
Current year			
At 1 July 2016			
Cost (gross carrying amount)	516	-	516
Accumulated amortisation and impairment	(516)	-	(516)
Net carrying amount	**-**	**-**	**-**
At 30 June 2017			
Cost (gross carrying amount)	516	-	516
Accumulated amortisation and impairment	(516)	-	(516)
Net carrying amount	**-**	**-**	**-**
Reconciliation			
Year ended 30 June 2017			
Net carrying amount at start of financial year	-	-	-
Additions	-	-	-
Impairment losses	-	-	-
Net carrying amount at end of financial year	**-**	**-**	**-**
Prior year			
At 1 July 2015			
Cost (gross carrying amount)	516	1,705	2,221
Accumulated amortisation and impairment	(516)	-	(516)
Net carrying amount	**-**	**1,705**	**1,705**
At 30 June 2016			
Cost (gross carrying amount)	516	-	516
Accumulated amortisation and impairment	(516)	-	(516)
Net carrying amount	**-**	**-**	**-**
Reconciliation			
Year ended 30 June 2016			
Net carrying amount at start of financial year	-	1,705	1,705
Additions	-	139	139
Impairment losses	-	(1,844)	(1,844)
Net carrying amount at end of financial year	**-**	**-**	**-**

notes to the financial statements

for the year ended 30 June 2017

The capitalisation threshold for intangible assets is $100,000 and above (including direct allocation of personnel service costs).

All research costs are expensed. Development costs are only capitalised when certain criteria are met.

The useful lives of intangible assets are assessed to be finite. The Authority charges amortisation on intangible assets using the straight-line method over a period of 4 years.

Intangible assets are subsequently measured at fair value only if there is an active market. As there is no active market for the Authority's intangible assets, the assets are carried at cost less any accumulated amortisation and impairment losses.

Intangible assets are tested for impairment where an indicator of impairment exists. If the recoverable amount is less than its carrying amount, the carrying amount is reduced to recoverable amount and the reduction is recognised as an impairment loss.

The impairment in the previous year relates to software no longer in use.

10. Fair value measurement of non-financial assets

The Authority recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. Refer Note 14 for further disclosures regarding fair value measurements of financial assets.

(a) Fair value hierarchy

2017 – Property, plant and equipment

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total Fair value $'000
Property, plant and equipment (Note 8)				
Scientific and medical equipment	-	94	-	94
	-	**94**	**-**	**94**

2016 – Property, plant and equipment

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total Fair value $'000
Property, plant and equipment (Note 8)				
Buildings	-	5,476	-	5,476
Scientific and medical equipment	-	110	-	110
	-	**5,586**	**-**	**5,586**

The Authority decided in March 2017 to sell its buildings and as a consequence buildings are now classified as Assets held for sale (Refer Note 7).

There were no transfers between Level 1 and 2 during the period.

notes to the financial statements

for the year ended 30 June 2017

(b) Valuation techniques, inputs and processes

Buildings and Scientific and Medical equipment are measured using the market approach. The valuation model is based on market data of similar assets.

All of the Authority's other assets that are not specialised are also measured using the market approach. NSW Treasury Policy paper 14-01 *Valuation of Physical Non-Current Assets at Fair Value* allows non-specialised assets with short useful lives to be recognised at depreciated historical cost as a surrogate for fair value. Depreciated historical cost is an appropriate surrogate for fair value because any difference between fair value and depreciated historical cost is unlikely to be material and the benefit of ascertaining a more accurate fair value does not justify the additional cost of obtaining it.

11. Payables

	2017 $'000	2016 $'000
Creditors	2,053	487
Service fees	2,111	1,305
Dust Diseases levy creditors	-	1,531
Accrued expenses and other creditors – operational	2,183	2,299
Accrued expenses and other creditors – capital	-	139
Investments payable	623	17,154
	6,970	**22,915**

These amounts represent liabilities for goods and services provided to the Authority and other amounts. Payables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

Refer to Note 14 for further information regarding credit risk, liquidity risk, and market risk, including a maturity analysis of the above payables.

notes to the financial statements

for the year ended 30 June 2017

12. Claims provision

	2017 $'000	2016 $'000
Claims provisions		
Provision for compensation – known claims	792,305	814,900
Provision for compensation – estimated future claims	886,868	924,100
Total claims provisions	**1,679,173**	**1,739,000**

Claims provision

Under the *Workers' Compensation (Dust Diseases) Act 1942*, the Authority provides a no-fault compensation scheme to people who have developed a dust disease from occupational exposure to dust as a worker in NSW. At 30 June 2017, liabilities for compensation payments and estimated compensation for future claims were valued by the actuaries PwC Actuarial.

Provision for compensation payments and estimated compensation for future claims

The actuarial valuation of the Outstanding claims liability consists of current and future costs relating to administering the Act as stated under section 6(2), which specifically include:

- compensation payable
- fees payable to the members of the Authority
- fees payable to the Medical Authority
- costs involved in reimbursing workers under section 9A – travel expenses associated with medical examinations
- costs of operation of the District Court relating to appeals under section 8I
- costs of administering the Act and any other money that the Authority is required to pay under the Act
- costs relating to medical or related treatment or hospital treatment or occupational rehabilitation service or ambulance service as under section 8.2(d) and reasonable funeral expenses under section 8(2A)
- compensation recoveries under section 8E.

The total actual costs incurred on the above payments net of section 8E recoveries during each year is offset against the provision for compensation payable. The resulting movement in provision is taken to the Statement of Comprehensive Income. Refer to Note 3(a) for more details.

The liability for compensation payments and estimated compensation for future claims are measured as the present value of the expected future payments. The present values after discounting are as follows:

	2017 $'000	2016 $'000
Not later than one year	106,012	105,400
Later than one year but not later than five years	381,064	384,200
Later than five years	1,192,097	1,249,400
	1,679,173	**1,739,000**

Compensation will be funded by future levies. The financial target for the Authority is to be fully funded for known claims, i.e. to have sufficient funds to pay the lifetime entitlements in respect of claims with a Certificate of Disablement issued. The *Workers' Compensation (Dust Diseases) Act 1942* gives the Authority power to impose levies on NSW Workers Compensation insurers each year to meet annual cash outflows.

notes to the financial statements

for the year ended 30 June 2017

The Authority includes in its provision an estimate for compensation payable for claims yet to be made of $886,868 Thousand (2016: $924,100 Thousand). This figure is shown in the Statement of Financial Position as a liability with the corresponding outstanding contributions receivable asset (net of cumulative surplus or deficit to date) representing the right to levy employers for these outstanding claims.

Movements in the provision for compensation during the financial year are set out below:

	2017 $'000	2016 $'000
Movements in the provision for compensation during the financial year are set out below:		
Carrying amount at start of financial year	1,739,000	1,845,400
Addition/(Reduction) in provision	47,206	(178,027)
Less: Service fees – refer note 3(b)	(10,204)	(7,640)
Other operating expenses (excluding depreciation & amortisation) – refer Note 3(c)	(2,744)	(3,909)
Compensation payments made during the year – refer Note 3(a)(i)	(90,594)	(89,231)
Medical examination costs of workers – refer Note 3(a)(ii)	(811)	(750)
Add: Compensation recoveries – refer Note 2(c)	2,825	1,657
Change in discount rate	(33,032)	136,800
Finance cost (unwinding of discount – refer Note 3(a)(iii))	27,527	34,700
Carrying amount at end of financial year	**1,679,173**	**1,739,000**

The liability brought to account is the amount recommended by the actuaries being their central estimate. The provision for compensation payable is measured at the present value of the expected future payments to persons who have accepted a claim for compensation or who are estimated by the actuaries to be entitled to compensation in the future.

The actuarial valuation contains numerous assumptions regarding the future numbers of claims and regarding the characteristics of the workers and their dependants particularly in respect to their age at time of report and their life expectancy.

Given the uncertainty of this portfolio a range of assumptions may be plausible which reflect the current environment in which claims are managed and settled. The main assumptions are:

- Future claims numbers
- Inflation and discount rates
- Mortality
- Disease type
- Age distribution
- Dependency status.

The actuaries, PricewaterhouseCoopers Actuarial, in the valuation of liability report dated 8 August 2017 have used an incidence and severity model to estimate the compensation payable for claims yet to be lodged. Estimated future claims are inflated and discounted, allowing for expected mortality and estimates around characteristics of each claimant.

notes to the financial statements

for the year ended 30 June 2017

The following inflation rates and discount rates were used in measuring the provision for compensation payable:

	2017 %	2016 %
Compensation expected to be paid		
Not later than one year		
Wages inflation rate	2.72	2.50
Discount rate	1.67	1.63
Later than one year		
Wages inflation rate*	2.85	2.32
Discount rate*	3.18	2.27

* Weighted average

Sensitivity analysis for the valuation as at 30 June 2017

The liability represents the best estimate and is based on standard actuarial assessment methodologies. The table below shows sensitivities to the valuation to changes in a number of key assumptions. If the Authority was required to adopt a risk margin (similar to insurers) to increase the probability of adequacy of the outstanding claims valuation liability to 75% the outstanding claims liability would increase by $371m to $2,050.2m.

notes to the financial statements

for the year ended 30 June 2017

	30 June 2017 Liability $'000	Effect On 30 June 2017 Liability $'000	Percentage Effect %
Central estimate of the Authority's liability	1,679	-	-
All valuation assumptions used			
Economic assumptions			
Increase inflation by 1% at each year	1,887	208	12.4
Decrease discount rate by 1% at each year	1,888	209	12.5
Decrease discount rate by 1% but with long-term gap of 1.8%	1,742	63	3.7
Increase discount rate by 1% but with long-term gap of 1.8%	1,568	(112)	(6.7)
Increase superimposed inflation on medical benefits by 2%	1,706	27	1.6
Reduce superimposed inflation on medical benefits by 2%	1,654	(26)	(1.5)
Disability assumptions			
Increase expected average lifetime disability by 5%	1,691	12	0.7
Decrease expected average lifetime disability by 5%	1,660	(19)	(1.2)
Dependant assumptions			
Increase the proportion of married workers by 5%	1,727	48	2.9
Decrease the proportion of married workers by 5%	1,624	(56)	(3.3)
Increase average age difference between workers and spouses to 6 years	1,721	42	2.5
Decrease average age difference between workers and spouses to 2 years	1,630	(49)	(2.9)
Mortality assumptions			
Change expected mortality to be based on rate of improvement over last 125 years	1,646	(33)	(2.0)
Change spouse mortality & withdrawal rate to be based on DDA actual experience only	1,657	(22)	(1.3)
Claims incidence assumptions			
Increase number of future asbestosis claims by 20%	1,692	13	0.8
Increase number of future mesothelioma claims by 20%	1,825	146	8.7
Increase number of future other dust diseases claims by 20%	1,680	1	0
Lump sum age factors			
Apply age factors based on future life expectancies in determining lump sum payments	1,734	55	3.3
No lump sum age reduction factors	2,077	398	23.7

Under existing legislation any impact of these sensitivities on liabilities would be offset by a corresponding movement in contributions from insurers yet to be levied.

notes to the financial statements

for the year ended 30 June 2017

13. Contingent liabilities and contingent assets

The Authority has no contingent assets or liabilities (2016:nil).

14. Financial instruments

The Authority's principal financial instruments are outlined below. These financial instruments arise directly from the Authority's operations or are required to finance the Authority's operations. The Authority does not enter into or trade financial instruments, including derivative instruments, for speculative purposes.

The Authority's main risks arising from financial instruments are outlined below, together with its objectives, policies and processes for measuring and managing the risk. Further quantitative and qualitative disclosures are included throughout these financial statements.

The Insurance and Care NSW Board has overall responsibility for the establishment and oversight of risk management and reviews and agrees policies for managing each of these risks. Risk management policies are established to identify and analyse the risks faced by the Authority, to set risk limits and controls and to monitor risks. Compliance with policies is reviewed by sub Committee's of the Board on a continual basis.

In May 2015, NSW Treasury Corporation (TCorp) was appointed to provide investment management and administration services to icare managed investment funds. TCorp is engaged through a Master Financial Services Agreement (MFSA) which details, amongst other things, the service and reporting provisions. Service levels and compliance to the MFSA are monitored through icare's Finance & Services team.

Financial assets

The Authority is ultimately responsible for identifying and controlling financial risks including the establishment of an overall financial risk management strategy and policy.

(a) Financial instrument categories

	Notes	Category	Carrying Amount 2017 $'000	Carrying Amount 2016 $'000
Financial Assets				
Class:				
Cash and cash equivalents	4	N/A	18,863	34,500
Receivables[1]	6	Loans and receivables (at amortised cost)	3,699	18,640
Investments	5	Fair value through profit or loss	1,139,500	1,037,328
Financial Liabilities				
Class:				
Payables[2]	11	Financial liabilities (at amortised cost)	6,970	21,384

1 Excludes statutory receivables, prepayments and outstanding contributions receivable (i.e. not within scope of AASB 7).

2 Excludes statutory payables, unearned revenue and claims liabilities (i.e. not within scope of AASB 7).

notes to the financial statements

for the year ended 30 June 2017

(b) Credit risk

Credit risk arises when there is the possibility that the counterparty will default on their contractual obligations, resulting in a financial loss to the Authority. The maximum exposure to credit risk is generally represented by the carrying amount of the financial assets (net of any allowance for impairment).

Credit risk arises from the financial assets of the Authority, including cash, receivables and Authority deposits. No collateral is held by the Authority. The Authority has not granted any financial guarantees.

Credit risk associated with the Authority's financial assets other than receivables, is managed through the selection of counterparties and establishment of minimum credit rating standards. Authority deposits held with NSW Treasury Corporation (TCorp) are guaranteed by the State.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

(i) Exposure:

Credit risk arises from the Authority's investments as a result of the investment manager trading with various counterparties and purchasing the debt of corporate and government borrowers. These activities could result in the Authority not being able to receive benefit as a result of a failing counterparty. The Authority's main credit risk concentration is spread between cash, indexed and interest bearing investments and over-the-counter, in-the-money derivatives.

Credit risk also arises from the Authority's receivables. Disclosures relating to the Authority's receivables are included in Note 6.

(ii) Risk management objective, policies and processes:

Credit Guidelines have been determined to ensure the Authority has controlled levels of credit concentration. These guidelines are at a total Authority level, with further asset class specific restrictions in investment managers mandates where applicable. In addition, where possible collateral arrangements may be implemented to reduce the Authority's exposure.

The exposure is reported against set guidelines both from an individual managers' compliance and at a total Authority level. Reporting is provided by the Authority's custodian and delivered to management for monitoring.

Credit risk arising on financial instruments is mitigated by investing primarily in rated instruments as determined by Standard and Poor's, Moody's or Fitch. The Authority minimises its credit risk by monitoring counterparty creditworthiness.

(iii) Quantitative analysis of exposure:

The Authority's maximum credit risk exposure at balance date in relation to each class of recognised financial asset, other than derivative financial instruments, is the carrying amount of those assets as indicated in the Statement of Financial Position.

In relation to over the counter derivative financial instruments, credit risk arises from the potential failure of counterparties to meet their obligations under the contract or arrangement.

Derivatives

The use of derivative financial instruments is governed by the Authority's policies. The Authority enters into derivative contracts for the purpose of gaining market and/or duration exposure or offsetting existing risk exposures.

The table below shows the fair value of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of a derivative is measured. The notional amounts are indicative of the exposure of the Authority to movements in the instrument underlying the derivatives. The notional amounts do not represent the credit risk of the derivative positions that is equal to the fair value.

The fair value amounts reported in the Statement of Financial Position, and the amounts reported in the following tables are the net value of individual swap positions where there is the ability to settle the swaps on a net basis and the Authority intends to settle on this basis.

notes to the financial statements

for the year ended 30 June 2017

	Assets $'000	Liabilities $'000	Notional Amount $'000
2017 Options			
Options on Fixed Income	226	-	163,000
Foreign forward exchange contracts	-	-	(54)
	226	**-**	**162,946**
2016 Options			
Options on Fixed Income	1,667	-	175,000
Foreign forward exchange contracts	41	3	2,541
	1,708	**3**	**177,541**

Indexed and interest bearing investments

The majority of the indexed and interest bearing investments held by the Authority are held with issuers rated investment grade by Standard and Poor's, Moody's or Fitch. The ratings assigned to the Authority's indexed and interest bearing investments at the end of the reporting period were as follows:

	2017 $'000	2017 %	2016 $'000	2016 %
Rating				
AAA/aaa	339,635	71	295,152	68
AA/Aa	133,474	28	130,610	30
A/A	6,565	1	6,466	2
Total	**479,674**	**100**	**432,228**	**100**

Cash and cash equivalents

Cash comprises cash on hand, balances held at private financial institutions, term deposits with a maturity of less than 3 months and bank balances within the NSW Treasury Banking System. Interest is earned on daily bank balances on funds in the NSW Treasury Banking System at the Reserve Bank of Australia's prevailing cash rate.

Receivable – trade debtors

Collectability of trade debtors is reviewed on an ongoing basis. Procedures as established in the Treasurer's Directions are followed to recover outstanding amounts, including letters of demand. Debts which are known as uncollectible are written off. An allowance for impairment is raised when there is objective evidence that the Authority will not be able to collect all amounts due. This evidence includes past experience, and current and expected changes in economic conditions. There is no independently assessed rating of the clients other than past experience and their compliance with credit terms, these credit terms are monitored by management on a monthly basis. Sales are made on 30 day terms.

notes to the financial statements

for the year ended 30 June 2017

The only financial assets that are past due are 'other receivables' in the 'receivables' category of the Statement of financial position.

	Total[1,2] $'000	Past Due but not impaired[1,2] $'000	Considered impaired[1,2] $'000
2017			
< 3 months overdue	44	44	-
3 months - 6 months overdue	1	1	-
> 6 months overdue	147	45	102
2016			
< 3 months overdue	48	48	-
3 months - 6 months overdue	-	-	-
> 6 months overdue	99	99	-

1 Each column in the table reports 'gross receivables'.

2 The ageing analysis excludes statutory receivables, as these are not within scope of AASB 7 and excludes receivables that are not past due and not impaired. Therefore, the 'total' will not reconcile to the receivables total recognised in the Statement of financial position.

There are no debtors which are currently not past due or impaired whose terms have been renegotiated.

(c) Liquidity risk

Liquidity risk is the risk that the Authority will be unable to meet its payment obligations when they fall due. The Authority continuously manages risk through monitoring of future cash flows and maturities planning to ensure adequate holding of high quality liquid assets. The objective is to maintain a balance between continuity of funding and flexibility through the use of overdrafts, loans and other advances, if applicable.

The Authority does not have any loans payable and no assets have been pledged as collateral. The Authority's exposure to liquidity risk is deemed insignificant based on prior periods' data and current assessment of risk.

The liabilities are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in NSW Treasury Circular NSWTC 11/12 Payment of Accounts.

The Authority is also exposed to liquidity risk from holding financial assets that may not be readily convertible to cash to meet financial liabilities and claims costs.

(i) Exposure:

The financial assets of the Authority that may not be readily convertible to cash are largely receivables (refer Note 6) and investments in over-the-counter or thinly traded investments, principally unlisted property trusts.

notes to the financial statements

for the year ended 30 June 2017

(ii) Risk management objective, policies and processes:

The Authority maintains adequate liquidity to meet the daily cash requirements for claims payments and other operating costs.

To assist in meeting its liquidity risk management objectives, the Authority maintains a cash balance and invests most of its assets in investments that are traded in active markets that can be readily disposed of.

The Authority invests a proportion of its assets in less liquid listed investments or investments that are not traded on active markets and this is strictly controlled in accordance with the asset allocation together with a policy which limits exposure to illiquid investments.

Each investment manager is responsible for cashflow management of the assets that have been mandated to them. That is, each investment manager is responsible for managing settlement liquidity risk. The custodian supplies daily reporting to each investment manager to assist them in this process.

(iii) Quantitative analysis of exposure:

The financial liabilities of the Authority comprise interest and other payables. The types of financial liabilities of the Authority were similar at 30 June 2016.

Cash due to brokers is payable on demand. Interest and other payables are typically settled within 30 days. If the derivative positions are closed out prior to maturity by entering into offsetting transactions, the Authority settles its derivative obligations in cash rather than physical delivery.

The other Authority liabilities are either claims whose maturity is disclosed in Note 12 or are related to Authority operations and have a maturity of less than 12 months.

The table below summarises the maturity profile of the Authority's financial liabilities, together with the interest rate exposure.

Maturity analysis and interest rate exposure of financial liabilities

	Weighted Average Effective Interest Rate %	Nominal Amount $'000	Interest Rate Exposure			Maturity Dates		
			Fixed Rate $'000	Variable Rate $'000	Non-Interest Bearing $'000	< 1 year $'000	1–5 years $'000	> 5 years $'000
2017								
Payables	N/A	6,970	-	-	6,970	6,970	-	-
2016								
Payables	N/A	21,384	-	-	21,384	21,384	-	-

Notes:
The amounts disclosed are the contractual undiscounted cash flows of each class of financial liabilities based on the earliest date on which the Authority can be required to pay. The tables include both interest (if applicable) and principal cash flows and therefore may not reconcile to the Statement of financial position.

notes to the financial statements

for the year ended 30 June 2017

(d) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market

Market risk arises as a result of the Authority holding cash and cash equivalents and trading investments as part of its asset allocation.

The Authority seeks to manage exposure to market risk so that it can generate sufficient returns to meet the Authority's current and future liabilities and mitigate the risk that the Authority's investments will be insufficient to meet such liabilities. The Authority's portfolio of investments is invested in accordance with its strategic asset allocation. The purpose of the strategic asset allocation is to construct a portfolio that achieves the Authority's investment objectives, including a return in excess of the liability discount rate, while limiting the probability of large declines in the Authority's funding ratio.

The actual asset allocations can deviate from the benchmark asset allocation due to:

- Authority cash flows
- Fluctuations in market prices; and
- Dynamic asset allocation decisions.

Dynamic asset allocation refers to medium term shifts away from the strategic asset allocation which are designed to capture market opportunities or to mitigate risks.

The deviations in actual versus benchmark asset allocation at the end of the reporting period were within the agreed tolerance limits for all asset classes.

Based on the asset allocation, TCorp appoints investment managers in each asset class, following consultation with icare. Management of the Authority's assets is allocated to the appointed investment manager. Each investment manager is subject to restrictions in relation to the types of assets in which it may invest, and in relation to the composition of investments within certain asset types. These restrictions are expressed in formalised mandates; typically contained in individually negotiated Investment Management Agreements or as described in Information Memoranda (or similar documents) issued by the relevant investment manager when the investment is via a pooled fund. The investment mandates are monitored on a daily basis to ensure that investment managers are compliant with their mandates and relevant agreements.

Each investment manager is responsible for managing security specific risk using its distinct management style. Each investment manager is also responsible for constructing a portfolio that aims to achieve its own investment objectives while complying with restrictions and guidelines contained in the mandate or Information Memorandum.

A risk budgeting framework is used to help determine an appropriate strategic asset allocation for the Authority. This framework incorporates the risk and return characteristics of the different asset classes in the portfolio and additional factors such as inflation and interest rates. Within this framework, a number of risk measures are employed including the frequency of negative returns, the volatility of the investment portfolio relative to the value of the liability and Value-at-Risk (VaR) analysis.

TCorp in conjunction with its asset consultant conducts the risk budgeting analysis utilising:

- Assumptions regarding the expected level of return, risk and correlations between price and wage inflation, bond yields and returns from different asset classes (for example equities, bonds, property and alternative assets); and
- Assumptions regarding the duration of inflation-linked and other liabilities consistent with those used by the Actuary.

The analysis incorporates scenario analysis to determine the risk and return of different investment strategies relative to the change in the liabilities over a period. The analysis is primarily used to compare different investment strategies, and then to determine the investment strategy that has the appropriate level of risk, given the risk and return objectives of the Authority.

The risk budgeting analysis is based on certain simplifying assumptions such as statistical characteristics of investment returns, volatilities and correlations – that may not represent actual outcomes. It is also important to note that the analysis only allows for some economic factors such as inflation and bond yields, which affect the value of the Authority's liabilities. It does not allow for other factors such as the claim loss ratio, claims incidence and necessary rates, which also affect the value of the Authority's liabilities. As such, the analysis may not be accurate in its assessment of the liability.

notes to the financial statements

for the year ended 30 June 2017

The VaR risk measure seeks to estimate the potential investment loss over a given holding period at a specified confidence level. The VaR methodology is a statistically-defined, probability-based approach to risk assessment that takes into account market volatilities as well as risk diversification by identifying offsetting positions and correlations between financial instruments and markets. The VaR methodology allows risks to be measured consistently across all markets and financial instruments and to be aggregated into a single risk number.

The risk budgeting framework assesses the Authority's VaR at the 95th percentile confidence level over a 12 month period. This represents the minimum expected reduction in the value of the Authority's investment portfolio which has a 5 per cent chance of being exceeded over a one year period.

In addition to a VaR measure, the risk budgeting framework is also used to assess the following risk and return characteristics:

- Expected return on the investment portfolio;
- Probability of meeting return targets that incorporate measures of wage inflation; and
- The performance of the investment portfolio under different economic scenarios.

The most recent VaR analysis was conducted in July 2017 based on the June 2017 financial instruments and is computed via forward looking simulation using a 95% confidence level and a 1 year holding period.

The Authority uses a Value at Risk (VaR) model to measure the market risk exposures to its invested assets in the balance sheet. VaR is calculated using simulated forward looking expected returns at the 95th percentile confidence level over a 12 month time period. The VaR methodology allows risks to be measured consistently across all markets and financial instruments and to be aggregated into a single number.

Given the Authority's financial instruments at 30 June 2017, the minimum potential loss expected over a one year period is $55.7 million (June 2016: $51.7 million), with a 5 per cent probability that this minimum may be exceeded.

(e) Interest rate risk

Interest rate risk rate is the risk that the (fair) value of a financial instrument will fluctuate because of changes in market interest rates. The value of the Authority's liabilities is also affected by interest rate fluctuations.

(i) Exposure:

Interest rate risk arises as a result of the Authority holding financial instruments which are subject directly or indirectly to changes in value as a result of interest rate fluctuations. Authority liabilities are similarly subject directly or indirectly to changes in value as a result of interest rate fluctuations.

(ii) Risk management objective, policies and processes:

The interest risk of the Authority is managed primarily through its strategic asset allocation and mandate objective setting. At 30 June 2017 the Authority had a 37 per cent (2016: 36 per cent) allocation to Australian Commonwealth and state government bonds to mitigate interest rate risk of Authority liabilities.

(iii) Quantitative analysis of exposure:

The table below summarises the Authority's exposure to interest rate risks. It includes the Authority's indexed and interest-bearing financial assets and liabilities at fair values, categorised by the earlier of their contractual re pricing or maturity dates.

The table does not show all assets and liabilities of the Authority. Assets and liabilities not shown in the table below are not indexed and interest bearing and are therefore not directly exposed to interest rate risk.

notes to the financial statements

for the year ended 30 June 2017

	Floating Interest Rate $'000	Fixed Interest Rate Maturing In < 3 months $'000	4–12 months $'000	1–5 years $'000	Over 5 years $'000	Total $'000
2017						
Class						
Cash	18,863	-	-	-	-	18,863
Indexed and interest bearing securities	309,379	-	-	13,919	156,376	479,674
Derivatives assets	-	557	224	-	-	781
Derivatives liabilities	-	(178)	-	-	-	(178)
Assets	**328,242**	**379**	**224**	**13,919**	**156,376**	**499,140**
2016						
Class						
Cash	27,039	-	-	-	-	27,039
Indexed and interest bearing securities	276,085	(204)	-	-	156,143	432,024
Derivatives assets	-	237	1,471	-	-	1,708
Derivatives liabilities	-	(3)	-	-	-	(3)
Assets	**303,124**	**30**	**1,471**	**-**	**156,143**	**460,768**

The Authority's exposure to interest rate price risk is considered a component of market price risk and is quantified as part of the VaR analysis discussed under Market risk.

The Authority is exposed to interest rate cash flow risk on its floating rate interest bearing securities as interest income earned varies according to prevailing market interest rates.

notes to the financial statements

for the year ended 30 June 2017

(f) Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

(i) Exposure:

The Authority is exposed to foreign exchange risk as a result of the foreign currency denominated investments held as part of its asset allocation.

(ii) Risk management objective, policies and processes:

TCorp manages foreign exchange risk for the Authority's developed market equities portfolio through changing the exposure to unhedged and hedged TCorpIM funds. Exposure to international unlisted infrastructure is gained through investment in a TCorpIM fund and is currency hedged. No hedging of foreign currency exposures to Australian dollars is undertaken on the value of assets invested in emerging markets.

All positions are reported on an ongoing basis by the Authority's custodian, State Street Bank and Trust Company, under a Service Level Agreement and reporting is provided both daily and monthly by the custodian to management for monitoring.

(iii) Quantitate analysis of exposure:

A summary of the Authority's direct exposure to foreign exchange risk, inclusive of foreign currency derivatives is shown in the table below:

	US Dollars AUD $'000	Euro AUD $'000	British Pounds AUD $'000	Japanese Yen AUD $'000	Total AUD $'000
2017					
Cash	7	9	17	39	72
Indexed and interest bearing securities	-	-	-	-	-
Unit Trusts	-	-	-	-	-
Equities	-	-	-	-	-
Foreign Exchange Exposure Position	**7**	**9**	**17**	**39**	**72**
2016					
Cash	5,819	-	-	41	5,860
Indexed and interest bearing securities	-	-	-	-	-
Unit Trusts	1,342	-	-	-	1,342
Equities	85,143	17,148	6,325	40,354	148,970
Foreign Exchange Exposure Position	**92,304**	**17,148**	**6,325**	**40,395**	**156,172**

Due to a realignment of the Authority's investments it is anticipated that all foreign exchanges will be performed in underlying trusts in 2017/2018.

The Authority's exposure to foreign market exchange risk is considered a component of market risk and is quantified as part of the VaR analysis discussed under Market risk.

notes to the financial statements

for the year ended 30 June 2017

(g) Fair valuation estimation

The carrying amounts of the Authority's financial assets and liabilities at the end of the reporting period approximated their fair values as all financial assets and liabilities held were either at fair value at the end of the reporting period ('marked to market') or were short term in nature.

The financial assets and liabilities are classified in accordance with the following fair value measurement hierarchy:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3 – inputs for the assets or liabilities that are not based on observable market data.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2017				
Financial assets at fair value				
Indexed and interest bearing securities	339,635	140,039	-	479,674
Unit Trusts	-	488,527	170,696	659,223
Equities	-	-	-	-
Derivatives assets	555	226	-	781
Derivatives liabilities	(178)	-	-	(178)
	340,012	**628,792**	**170,696**	**1,139,500**
2016				
Financial assets at fair value				
Indexed and interest bearing securities	287,758	144,470	-	432,228
Unit Trusts	8,991	229,132	129,330	367,453
Equities	236,143	-	-	236,143
Derivatives assets	-	1,708	-	1,708
Derivatives liabilities	(204)	(3)	-	(207)
	532,688	**375,307**	**129,330**	**1,037,325**

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets of the Authority is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. A variety of methods are used which include assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used to estimate fair value for debt securities for disclosure purposes. Evaluations of such securities are based on market data. Vendors utilise evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information and for structured securities, cash flow and when available loan performance data.

Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the end of the reporting period. These instruments are included in level 2 and comprise debt instruments and derivative financial instruments.

notes to the financial statements

for the year ended 30 June 2017

Transfer between levels

The Authority recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfer has occurred.

The following table presents the movement in level 3 instruments for the year ended 30 June.

	2017 $'000	2016 $'000
Opening balance	129,330	95,440
Transfers into Level 3	-	-
Purchases of securities	36,490	23,335
Sale of securities	-	-
Transfer out of Level 3	-	-
Gain / (loss) in Profit & Loss (investment income)	4,876	10,555
Closing balance	**170,696**	**129,330**
Total gains/(losses) for the period included in profit or loss that relate to assets held at the end of the reporting period (shown in investment income)	**4,876**	**10,555**

The table below sets out information about significant unobservable inputs used at year end in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

Type	Description	Valuation technique	Significant unobservable inputs
Unit Trusts	Units in unlisted property and infrastructure trusts	Net asset value	Published redemption prices

Valuation framework

The Authority has an established control framework with respect to the measurement of fair values. This framework has been outsourced to an external service provider which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls conducted by the outsourced service provider include:

- Verification of observable pricing;
- Re-performance of model valuations;
- A review and approval process for new models and changes to models;
- Quarterly calibration and back testing of models against observed market transactions;
- Analysis and investigation of significant daily valuation movements;
- Review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared to previous month.

notes to the financial statements

for the year ended 30 June 2017

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, the outsourced service provider assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of accounting standards. This includes:

- Verifying that the broker or pricing service is approved by the Master Custodian of the Authority for use in pricing the relevant type of financial instrument;
- Understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
- When prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement;
- Where a number of quotes for the same financial instrument have been obtained, how fair value has been determined using those quotes.

Significant valuation issues are reported to the Insurance and Care NSW Board's Audit and Risk Committee.

Involvement with unconsolidated structured entities

The Authority has concluded that unlisted investment funds in which it invests, but that it does not consolidate, meet the definition of structured entities because:

- The voting rights in the funds are not dominant rights in deciding who controls them as they relate to administrative tasks only;
- Each fund's activities are restricted by its fund or product offer documents and constitutions; and
- The funds have narrow and well-defined objectives to provide investment opportunities to investors.

The table below describes the types of structured entities that the Fund does not consolidate but in which it holds an interest, set out by investment strategy.

Investment strategy

	Net Market Value as at 30 June 2017 $'000	Exposure as at 30 June 2017 %	Net Market Value as at 30 June 2016 $'000	Exposure as at 30 June 2016 %
Property	122,034	19	111,242	31
Shares	484,221	73	192,701	54
Strategic	4,306	1	4,198	1
Infrastructure	48.662	7	18,088	5
Other	-	-	32,233	9
Total	**659,223**	**100**	**358,462**	**100**

The above table lists the net market value and the Authority's percentage exposure to each investment strategy as at 30 June. These unconsolidated structured entities are included under unit trusts. The maximum exposure or loss is limited to the net market value of the investment strategy as at 30 June 2017. The net market value of the exposure will change on a daily basis throughout the period and in the subsequent periods will cease once the investments are disposed.

The investments of the Authority are managed in accordance with the investment mandates with respective underlying investment managers. The investment decisions of the mandate are based on the analysis conducted by the investment manager. The return of the portfolio is exposed to the variability of the performance of the underlying management of these investments.

notes to the financial statements

for the year ended 30 June 2017

15. Budget review

Statement of comprehensive income

	Actual 2017 $'000	Budget 2017 $'000
Revenue		
Levies	115,879	109,292
Investment revenue	87,445	54,853
Other revenue	3,192	2,180
Total Revenue	**206,516**	**166,325**
Expenses excluding losses		
Scheme costs	178,850	146,928
Service fees	10,204	13,167
Other operating expenses	3,386	-
Grants and subsidies	5,313	5,980
Total expenses excluding losses	**197,753**	**166,075**
Impairment loss on software no longer used	-	-
Impairment gains/(losses) on receivables	(416)	(250)
Net result	**8,347**	**-**

Comment

The net result is $8.3m favourable to budget mainly due to the following items:

- Levies are $6.6m favourable to budget mainly due to higher wages overall together with varied composition of those wages.
- Investment revenue is $32.6m favourable to budget due to stronger investment markets.
- The above favourable impacts were partially offset by $31.9m unfavourable scheme costs due a higher than anticipated decrease in movement in the outstanding contribution receivable from insurers. This is directly related to the favourable investment revenue.

notes to the financial statements

for the year ended 30 June 2017

Statement of financial position as at 30 June 2017

	Actual 2017 $'000	Budget 2017 $'000
ASSETS		
Cash and cash equivalents	18,863	58,449
Investments	1,139,500	1,064,167
Receivables	542,435	600,839
Assets held for sale	5,373	-
Property, plant and equipment	265	4,265
Total Assets	**1,706,436**	**1,727,720**
LIABILITIES		
Payables	6,970	15,749
Claims Provision	1,679,173	1,702,402
Total Liabilities	**1,686,143**	**1,718,151**
Net Assets	**20,293**	**9,569**
EQUITY		
Reserves	2,598	1,265
Accumulated funds	17,695	8,304
Total Equity	**20,293**	**9,569**

Comment

Total assets were $21.3m unfavourable to budget mainly due to a decrease in outstanding contribution from insurers as a result of favourable investment revenue offset by higher than budgeted cash and investment returns.

Total liabilities were $32.0m favourable to budget mainly due to the decreases in the provisions for outstanding claims liabilities attributable to changes to both actuarial valuation assumptions such as medical costs and economic assumptions.

notes to the financial statements

for the year ended 30 June 2017

Statement of Cash flows

	Notes	Actual 2017 $'000	Budget 2017 $'000
Levies received		107,703	119,505
Compensation payments		(89,077)	(99,065)
		18,626	**20,440**
Receipts			
Proceeds from sale of investments		1,020,701	-
Interest received		27,139	50,754
Other		3,607	1,930
Total Receipts		**1,051,447**	**52,684**
Payments			
Purchases of investments		(1,065,171)	(51,365)
Service fees		(8,180)	(12,805)
Other operating		(7,046)	-
Grants and subsidies		(5,313)	(5,980)
Total Payments		**(1,085,710)**	**(70,150)**
NET CASH FLOWS FROM OTHER OPERATING ACTIVITIES		**(15,637)**	**2,974**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of plant and equipment		-	(40)
Purchases of intangible assets		-	-
NET CASH FLOWS FROM INVESTING ACTIVITIES		**-**	**(40)**
NET INCREASE/(DECREASE) IN CASH		**(15,637)**	**2,934**
Opening cash and cash equivalents		34,500	55,515
CLOSING CASH AND CASH EQUIVALENTS	4	**18,863**	**58,449**

Comment

Cash and equivalents held as at 30 June 2017 are $39.6m lower than budget mainly due to higher purchases of investments.

End of audited financial statements

lifetime care

lifetime care financial statements

for the year ended 30 June 2017

Notes to the financial statements

pwc

LIFETIME CARE AND SUPPORT SCHEME

Actuarial Certificate
Outstanding claims liabilities at 30 June 2017

PricewaterhouseCoopers Consulting (Australia) Pty Ltd (PwC) has been contracted by Insurance & Care NSW (icare) acting for the Lifetime Care and Support Authority (LTCSA) to make estimates of the outstanding claims liabilities as at 30 June 2017 of the Lifetime Care and Support Scheme.

Data

PwC has relied on historical data and other quantitative and qualitative information supplied by icare acting for the LTCSA without audit or independent verification. We did, however, review this information for reasonableness and internal consistency, where possible. The accuracy of our results is dependent upon the accuracy and completeness of the underlying data.

Basis of Our Estimates

We have made central estimates of the outstanding claims liabilities, meaning that our assumptions have been selected to yield estimates that are not knowingly above or below the ultimate liabilities. Our estimates include allowances for:

- Future inflation and investment return;
- Future mortality and injury severity improvements of participants; and
- Includes a loading for future operating expenses to meet the cost of managing the scheme for incurred participants at 30 June 2017, including for participants incurred but yet to be reported.

The estimates do not include any allowance for a risk margin.

Valuation Results

The PwC estimated liability for the Lifetime Care and Support Scheme as at 30 June 2017 is $3,343 million.

It is a decision for the Lifetime Care and Support Authority as to the amount adopted in the accounts.

Uncertainty

There is a limitation upon the accuracy of the estimates in this certificate in that there is an inherent uncertainty in any estimate of outstanding claims liabilities. This is due to the fact that the ultimate liability for claims is subject to the outcome of events yet to occur. These include, but are not limited to, the mortality rate and participants' injury severity improvements within the scheme, the number of participants accepted into the scheme, price adjustments by service providers and future levels of care and support provided to participants.

In our judgement, we have employed techniques and assumptions that are appropriate, and we believe the conclusions presented herein are reasonable, given the information currently available.

pwc

Valuation Report

Full details of data, methodology, assumptions and results are set out in our valuation report dated 23 August 2017.

Relevant Standards

Our estimates and reports were prepared, to the best of our knowledge, in compliance with Australian Accounting Standard AASB137 and the Institute of Actuaries of Australia's Professional Standard 300, which relates to estimation of outstanding claims liabilities.

Andrew Smith	Peter McCourt
FIAA	FIAA
31 August 2017	31 August 2017

statement by the chairman and chief executive officer

for the year ended 30 June 2017

Lifetime Care and Support Authority of NSW

Certificate under Section 41C(1B) and 41C(1C) of the *Public Finance and Audit Act 1983* and Clause 7 of the *Public Finance and Audit Regulation 2015.*

In the opinion of the Board of Directors:

1. the financial statements of Lifetime Care and Support Authority of NSW have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2015* and the Treasurer's Directions. They have also been prepared in accordance with Australian Accounting Standards (which include Australian Interpretations) and other authoritative pronouncements of the Australian Accounting Standards Board.
2. the financial statements for the year ended 30 June 2017 exhibit a true and fair view of the position and transactions of the Lifetime Care and Support Authority and;
3. the directors are not aware of any circumstances as at the date of this certificate which would render any particulars included in the financial statements misleading or inaccurate.

Signed on behalf of the Board of Directors

Michael Carapiet
Chairman/Director
Insurance and Care NSW
25 September 2017

Vivek Bhatia
Chief Executive Officer
Lifetime Care and Support Authority of NSW and Insurance and Care NSW
25 September 2017

INDEPENDENT AUDITOR'S REPORT

Lifetime Care and Support Authority of NSW

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of the Lifetime Care and Support Authority of NSW (the Authority), which comprise the statement of financial position as at 30 June 2017, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information.

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 30 June 2017, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015.

My opinion should be read in conjunction with the rest of this report.

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the Authority in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies
- precluding the Auditor-General from providing non-audit services.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

The Chief Executive's Responsibility for the Financial Statements

The Chief Executive Officer is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the PF&A Act, and for such internal control as the Chief Executive Officer determines is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Executive Officer must assess the Authority's ability to continue as a going concern except where the Authority will be dissolved by an Act of Parliament or otherwise cease operations. The assessment must disclose, as applicable, matters related to going concern and the appropriateness of using the going concern basis of accounting.

Auditor's Responsibility for the Audit of the Financial Statements

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf. The description forms part of my auditor's report.

My opinion does *not* provide assurance:

- that the Authority carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.

A Oyetunji
Director, Financial Audit Services

29 September 2017
SYDNEY

statement of comprehensive income

for the year ended 30 June 2017

	Notes	2017 $'000	2016 $'000
Revenue			
Fees and Levies	2(a)	460,802	437,078
Investment revenue	2(b)	420,642	128,807
Share of profit or (loss) of associates	2(c)	442	49
Other revenue	2(d)	180	489
Total Revenue		**882,066**	**566,423**
Expenses excluding losses			
Scheme costs	3(a)	531,414	315,672
Service fee	3(b)	28,578	23,410
Other operating expenses	3(c)	5,007	5,717
Grants and subsidies	3(d)	-	1,760
Total Expenses excluding losses		**564,999**	**346,559**
Impairment loss of software on transfer into use		-	(46)
Gain/(loss) on disposal of assets		76	(165)
Net result		**317,143**	**219,653**
Other comprehensive income			
Items that will not be reclassified to the net result			
Net increase/(decrease) in property, plant and equipment revaluation surplus		(966)	433
Total other comprehensive income		**(966)**	**433**
TOTAL COMPREHENSIVE INCOME		**316,177**	**220,086**

The accompanying notes form part of these financial statements.

statement of financial position

as at 30 June 2017

	Notes	2017 $'000	2016 $'000
ASSETS			
Cash and cash equivalents	4	307,702	281,019
Investments	6	4,789,349	4,088,628
Receivables	5	61,916	101,241
Property, plant and equipment	7	9,597	10,910
Intangible assets	8	280	653
Investments accounted for using the equity method	11	2,248	1,807
Total Assets		**5,171,092**	**4,484,258**
LIABILITIES			
Payables	12	15,703	49,136
Provisions	13	3,343,197	2,939,107
Total Liabilities		**3,358,900**	**2,988,243**
Net Assets		**1,812,192**	**1,496,015**
EQUITY			
Reserves		-	966
Accumulated funds		1,812,192	1,495,049
Total Equity		**1,812,192**	**1,496,015**

The accompanying notes form part of these financial statements.

statement of changes in equity

for the year ended 30 June 2017

	Notes	Accumulated Funds $'000	Asset Revaluation Surplus $'000	Total $'000
Balance at 1 July 2016		**1,495,049**	**966**	**1,496,015**
Net result for the year		**317,143**	**-**	**317,143**
Other comprehensive income				
Net decrease in property, plant and equipment revaluation surplus		-	(966)	(966)
Total other comprehensive income		**-**	**(966)**	**(966)**
Total comprehensive income for the year		**317,143**	**(966)**	**316,177**
Balance at 30 June 2017		**1,812,192**	**-**	**1,812,192**
Balance at 1 July 2015		**1,275,528**	**533**	**1,276,061**
Net result for the year		**219,653**	**-**	**219,653**
Other comprehensive income				
Net increase in property, plant and equipment revaluation surplus		-	433	433
Total other comprehensive income		**-**	**433**	**433**
Total comprehensive income for the year		**219,653**	**433**	**220,086**
Transactions with owners in their capacity as owners				
(Decrease) in net assets from equity transfers		(132)	-	(132)
Balance at 30 June 2016		**1,495,049**	**966**	**1,496,015**

The accompanying notes form part of these financial statements.

statement of cash flows

for the year ended 30 June 2017

	Notes	2017 $'000	2016 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Fees and levies received		456,002	434,262
Compensation payments		(124,006)	(110,246)
Net Cash Flows from Scheme Activities		**331,996**	**324,016**
Receipts			
Proceeds from sale of investments		2,901,714	1,975,253
Interest received		57,512	73,106
Other		180	226
Total Receipts Excluding Scheme Activities		**2,959,406**	**2,048,585**
Payments			
Purchases of investments		(3,229,799)	(2,503,327)
Service Fees		(22,829)	(23,410)
Grants and subsidies		-	(1,760)
Other		(11,621)	(9,393)
Total Payments Excluding Scheme Activities		**(3,264,249)**	**(2,537,890)**
NET CASH FLOWS FROM OPERATING ACTIVITIES	4	**27,153**	**(165,289)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		98	27
Purchases of property, plant and equipment		(568)	(3,226)
Purchases of intangible assets		-	6
NET CASH FLOWS FROM INVESTING ACTIVITIES		**(470)**	**(3,193)**
NET INCREASE/(DECREASE) IN CASH		**26,683**	**(168,482)**
Opening cash and cash equivalents		**281,019**	**449,501**
CLOSING CASH AND CASH EQUIVALENTS	4	**307,702**	**281,019**

The accompanying notes form part of these financial statements.

notes to the financial statements

for the year ended 30 June 2017

1. Summary of significant accounting policies

(a) Reporting entity

The Lifetime Care and Support Authority of NSW (the Authority) is a NSW government entity. The Authority is a not-for-profit entity (as profit is not its principal objective) and it has no cash generating units. The reporting entity is consolidated as part of the NSW Total State Sector Accounts.

icare provides services at arms-length to the Authority.

These financial statements for the year ended 30 June 2017 have been authorised for issue by the Chairman of the board and the Chief Executive Officer on behalf of the board on 25 September 2017.

(b) Basis of preparation

The Authority's financial statements are general purpose financial statements which have been prepared on an accruals basis and in accordance with:

- applicable Australian Accounting Standards (which include Australian Accounting Interpretations), and
- the requirements of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2015* and the Treasurer's Directions.

Investment assets backing claim liabilities are measured at fair value. All other assets and liabilities are initially measured at historical cost and then at fair value.

Judgments, key assumptions and estimations management has made are disclosed in the relevant notes to the financial statements.

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 13 – Provisions
- Note 17 – Financial instruments.

These financial statements have been presented on a liquidity basis following receipt of an exemption from TC17-04 by NSW Treasury that statements are presented on a current and non-current basis.

All amounts are rounded to the nearest one thousand dollars and are expressed in Australian currency, which is the functional currency of the reporting entity.

Tables may not add in all instances due to rounding.

(c) Statement of compliance

The financial statements and notes comply with Australian Accounting Standards, which include Australian Accounting Interpretations.

(d) Accounting for the Goods and Services Tax (GST)

Income, expenses and assets are recognised net of the amount of associated GST, except that:

- the amount of GST incurred by the Authority as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of the cost of acquisition of the asset or as part of an item of expense and
- receivables and payables are stated with the amount of GST included.

Cash flows are included in the Statement of cash flows on a gross basis. However the GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

notes to the financial statements

for the year ended 30 June 2017

(e) Equity and reserves

Asset Revaluation surplus

The revaluation surplus is used to record increments and decrements on the revaluation of property, plant and equipment. This accords with the Authority's policy on the revaluation of property, plant and equipment as discussed in note 7.

Accumulated funds

The category 'Accumulated Funds' includes all current and prior period retained funds.

(f) Comparative information

Except when an Australian Accounting Standard permits or requires otherwise, comparative information is disclosed in respect of the previous period for all amounts reported in the financial statements. Comparative data has been reclassified when necessary to enhance comparability in respect of changes in the current year.

(g) Changes in accounting policy, including new or revised Australian Accounting Standards.

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the reporting period ending 30 June 2017. The following new Standards will not have any direct impact on the financial performance or position of the Authority.

- AASB 9 *Financial Instruments*
- AASB 15, AASB 2014-5, AASB 2015-8 and AASB 2016-3 regarding Revenue from Contracts with Customers
- AASB 16 regarding leases
- AASB 1058 *Income of Not-for-profit Entities*
- AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107
- AASB 2016-6 Amendments to Australian Accounting Standards – Applying AASB 9 with AASB 4 Insurance Contracts
- AASB 2016-7 Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities
- AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities
- AASB 2017-1 Amendments to Australian Accounting Standards – Transfer of Investment Property, Annual Improvements 2014–2016 Cycle and Other Amendments
- AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014–2016 Cycle.

AASB 9 Financial Instruments and its associated amending standards specify new recognition and measurement requirements for financial assets and financial liabilities within the scope of AASB 139 Financial Instruments: Recognition and Measurement.

The Authority values its financial assets and financial liabilities at fair value through profit or loss. Therefore when applied, these standards will only materially impact disclosures.

notes to the financial statements

for the year ended 30 June 2017

2. Revenue

(a) Fees and levies

	2017 $'000	2016 $'000
Fees and levies		
CTP premium levy	460,802	437,078
	460,802	**437,078**

The Authority's funds are generated from levies on Compulsory Third Party (CTP) insurance premiums collected by licensed insurers in accordance with Section 50(5) of the *Motor Accidents (Lifetime Care and Support) Act 2006*. The levy rates are set according to vehicle class and region. CTP levy revenue is recognised when it falls due and receivable by the Authority.

(b) Investment revenue

	2017 $'000	2016 $'000
Interest revenue from bank interest and TCorpIM Cash Fund	1,707	4,081
TCorp investment facilities	115,966	224,922
Other investment facilities	5,378	5,906
Realised Gains/(Losses) on investments	253,388	76,737
Unrealised Gains/(Losses) on investments	44,203	(182,839)
	420,642	**128,807**

Investment revenue is brought to account on an accruals basis. Interest revenue is recognised using the effective interest method as set out in AASB 139 Financial Instruments: Recognition and Measurement. Dividends on quoted shares are deemed to accrue when the relevant shareholding becomes ex-dividend. Differences between the net market values of investments at the end of the reporting period and their net market values at the end of the previous reporting period (or cost of acquisition, if acquired during the reporting period) are recognised as revenue in the Statement of Comprehensive Income.

The Authority is in the process of divesting from TCorp IM funds and investing in icare specific trusts during the year. This has resulted in a significant increase in realised gains this year.

notes to the financial statements

for the year ended 30 June 2017

(c) Share of the profit or (loss) of associates

	2017 $'000	2016 $'000
Sargood Centre	442	49

An associate is an entity over which the Authority has significant influence but not control or joint control, generally accompanying voting rights between twenty and fifty per cent. Investment in associate is accounted for using the equity method of accounting, after initially being recognised at cost. The investment is adjusted to recognise the Authority's share of the profit or loss and other comprehensive income of the associate. The Authority's share of its associates' post acquisition profits or losses is recognised in profit or loss, and its share of post acquisition other comprehensive income is recognised in other comprehensive income.

When the Authority transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Authority's financial statements only to the extent of interests in the associate that are not related to the Authority. Refer to Note 11 for more details.

The Sargood Centre commenced operations in March 2017.

(d) Other revenue

	2017 $'000	2016 $'000
Grants	-	280
Scheme recoveries	97	170
Other	83	39
	180	**489**

notes to the financial statements

for the year ended 30 June 2017

3. Expenses excluding losses

(a) Scheme costs

	2017 $'000	2016 $'000
Participants' care and support expenses		
• Attendant care	59,449	47,811
• Equipment	10,484	8,318
• Home modifications	5,420	7,423
• Hospital	16,330	16,586
• Medical	5,443	5,989
• Rehabilitation	20,468	17,826
• Other	7,137	6,234
	124,731	**110,187**
Movement in provision for future participant care and support services (refer Note 13)	231,639	40,286
Finance costs – unwinding of discount rate (refer Note 13)	172,420	160,498
Bulk billing fees – Ambulance Service of NSW	58	58
Bulk billing fees – NSW Ministry of Health	2,566	4,643
	531,414	**315,672**

Participants care and support expense is the amount incurred during the year plus the amount, which the consulting actuary has estimated as at 30 June 2017 as being the movement in the amount required to meet the cost of participants care and support expenses reported but not yet paid, participant care and support expenses incurred which are yet to be reported and the escalation in reported and reopened participants care and support expenses. The liability for the outstanding participant's care and support expenses is estimated as the inflated and discounted values of the expected future payments, reflecting the fact that these payments will be spread over future years. The expected future payments are estimated on the basis of the ultimate cost of participants care and support expenses which is affected by factors arising during the period to settlement. The provision includes an allowance for managing the care and support.

The increase in participant care and support expenses in 2016–17 compared to 2015–16 is due to factors that impacted the 2015–16 valuation resulting in a lower movement in that year. These factors were a $101m release, allowing for CANS improvement factors by age, a $91.4m release due to changes in the long term projected attendant care cost assumptions and overall favorable experience.

notes to the financial statements

for the year ended 30 June 2017

(b) Service fees

	2017 $'000	2016 $'000
Service fees	28,578	23,410

Service fees

In accordance with the *State Insurance and Care Governance Act 2015* from 1 September 2015 the Authority receives services from Insurance and Care NSW (icare). Under the arrangement some of the Authority's costs are incurred by icare. These services include the provision of staff, claims handling, facilities, general business expenses and governance services.

Included in last years' service fee paid to icare was $77,000 for the audit of the financial statements performed by the Audit Office of NSW.

The Authority's key management personnel are the Board of Directors of icare, the Chief Executive Officer of icare and their direct reports. All transactions with these key management personnel are at arm's length and are included in the service fee paid to icare for those personnel remunerated by icare.

notes to the financial statements

for the year ended 30 June 2017

(c) Other operating expenses

	2017 $'000	2016 $'000
Personnel services		
Salaries and wages (including annual leave)	-	1,449
Superannuation – defined contribution plans	-	127
Superannuation – defined benefit plans (including actuarial (gains)/losses)	-	(2)
Long service leave	-	171
Workers' compensation insurance	-	47
Payroll tax and fringe benefit tax	-	91
Agency short-term staff	-	57
Total Personnel services	**-**	**1,940**
Depreciation and amortisation	813	854
Revaluation decrement on land and building (refer note 7)	453	-
Financial assets management fees	2,542	2,607
Operating lease rental expense		
– minimum lease payments	-	152
– other related expenses	-	56
Information, communication and technology	594	146
Other miscellaneous	141	79
Legal fees	-	48
Insurance	-	18
Contractors	312	15
Consultants	69	-
Maintenance	-	(198)
Auditor's remuneration – audit of the financial statements	83	-
Total Other operating expenses	**5,007**	**5,717**

As explained in Note 3 (b) the majority of the Authority's costs are incurred by icare and are shown in the Service fee charged by icare for this service. As icare was only created on 1 September 2015 the prior period costs include 2 months of expenditure incurred by the Authority prior to the commencement of icare providing those services.

notes to the financial statements
for the year ended 30 June 2017

(d) Grants and subsidies

	2017 $'000	2016 $'000
Injury management and injury prevention	-	1,760
	-	**1,760**

icare through the icare Foundation invests in programs, research and partnerships focused on prevention and post injury care that will make a difference to the mental and wellbeing of our community and Lifetime Care supports the Foundation via its service fee.

4. Cash and cash equivalents

	2017 $'000	2016 $'000
Cash at bank and on hand	8,639	9,473
Short-term deposits:		
• TCorpIM Cash Fund	62,511	51,294
• Cash – Other Deposits at TCorp	30,272	13,980
• Cash – Other	206,280	206,272
	307,702	**281,019**

For the purposes of the Statement of cash flows, cash and cash equivalents includes cash at bank, cash on hand and short term deposits of less than 12 months duration.

Cash and cash equivalent assets recognised in the Statement of financial position are reconciled at the end of the financial year to the Statement of cash flows as follows:

	2017 $'000	2016 $'000
Cash and cash equivalent assets (per Statement of financial position)	307,702	281,019
Closing cash and cash equivalents (per Statement of cash flows)	**307,702**	**281,019**

Refer to Note 17 for further information regarding credit risk, liquidity risk and market risk arising from financial instruments.

notes to the financial statements
for the year ended 30 June 2017

	2017 $'000	2016 $'000
Reconciliation of Net Cash Flows from Operating Activities to Net Result		
Net cash provided by/(used on) operating activities	27,153	(165,289)
Depreciation and amortisation	(813)	(854)
Impairment of software on transfer into use	-	(46)
Decrement on asset revaluation	(453)	-
Gain/(loss) on disposal of assets	76	(165)
Increase/(Decrease) in investments in Sargood	442	49
Net investment purchases	328,085	528,073
Net cashflows from investment operating activities	363,158	55,604
Defined Benefit Superannuation transfer	-	132
Change in assets and liabilities		
Increase in receivables	5,683	3,054
(Increase) in payables	(2,098)	(3,113)
(Increase) in provisions	(404,090)	(197,792)
Net result	**317,143**	**219,653**

5. Receivables

	2017 $'000	2016 $'000
Fees and levies	48,624	44,448
Service Fee Receivable	664	-
Prepayments	-	243
GST receivable	833	593
Interest receivable	155	183
Investments receivable	8,610	53,620
Receivables from participants	1,145	1,446
Other	1,885	708
	61,916	**101,241**

Receivables from trade debtors and participants are non-interest bearing and the former are generally on a 30-day term while the latter are more than 12 months, depending on each individual circumstance.

The authority is in the process of divesting from TCorpIM funds and investing in icare specific trusts during the year.

Where receivables are outstanding beyond the normal trading terms, management assesses the likelihood of the recovery of these receivables. An appropriate allowance for impairment is made.

No receivables are considered impaired (2016 $nil).

Details regarding credit risk, liquidity risk and market risk of the above receivables are disclosed in Note 17.

notes to the financial statements

for the year ended 30 June 2017

Receivables from participants

The Authority maintains assets in the form of real property, mortgages over Participant's assets, and accommodation bonds in favour of Scheme participants who require continual care.

Loans to Participants represent amounts provided to Scheme participants for purchasing suitable properties and bond payment to nursing homes. These loans are to be repaid upon the earlier of the sale of the property, when the participant ceases to live continuously for six months in the property, ceases to be a participant in the Scheme, dies, or when the participant receives damages for additional accommodation costs from the compulsory third party insurer. These loans are measured at costs without discounts and recognised as assets in the Statement of Financial Position. The loans are not revalued from year-to-year and there is no impairment provided to these loans because the default risk of these loans is close to nil. When the participant sells the property, the Authority will be refunded the loan amount plus a pro-rata share of profit on sale of the property. The gain or loss is to be recognised in the Statement of Comprehensive Income.

6. Investments

	2017 $'000	2016 $'000
TCorpIM Funds	3,291,726	2,814,251
TCorp Fixed/Variable Interest discrete portfolio	1,496,929	1,266,743
Other Investments	694	7,634
Total Financial assets	**4,789,349**	**4,088,628**

The main purpose of the Authority's investments are to meet its claim liabilities.

Purchases and sales of investments are recognised on trade date – the date on which the Authority commits to purchase or sell the asset.

Refer to Note 17 for further information regarding credit risk, liquidity risk and market risk arising from financial instruments.

7. Property, plant and equipment

	Capital Works in Progress $'000	Land and Buildings $'000	Leasehold Improvements $'000	Motor Vehicles $'000	Total $'000
At 1 July 2016 – fair value					
Gross carrying amount	4,655	6,210	771	155	11,791
Accumulated depreciation and impairment	-	(23)	(751)	(107)	(881)
Net carrying amount	**4,655**	**6,187**	**20**	**48**	**10,910**
At 30 June 2017 – fair value					
Gross carrying amount	-	9,292	1,127	209	10,628
Accumulated depreciation and impairment	-	(31)	(956)	(44)	(1,031)
Net carrying amount	**-**	**9,261**	**171**	**165**	**9,597**

notes to the financial statements

for the year ended 30 June 2017

Reconciliation

A reconciliation of the carrying amount of each class of property, plant and equipment at the beginning and end of the current reporting period is set out below:

	Capital Works in Progress $'000	Land and Buildings $'000	Leasehold Improvements $'000	Motor Vehicles $'000	Total $'000
Year ended 30 June 2017					
Net carrying amount at start of financial year	4,655	6,187	20	48	10,910
Additions	24	-	357	188	569
Disposals	-	-	-	(134)	(134)
Net revaluation increment less revaluation decrements	-	(1,419)	-	-	(1,419)
Transfers	(4,679)	4,679	-	-	-
Depreciation expense	-	(186)	(206)	(48)	(440)
Write-back of depreciation on disposal	-	-	-	111	111
Net carrying amount at end of financial year	**-**	**9,261**	**171**	**165**	**9,597**
At 1 July 2015 – fair value					
Gross carrying amount	1,442	5,870	2,799	185	10,296
Accumulated depreciation and impairment	-	(23)	(2,413)	(79)	(2,515)
Net carrying amount	**1,442**	**5,847**	**386**	**106**	**7,781**
At 30 June 2016 – fair value					
Gross carrying amount	4,655	6,210	771	155	11,791
Accumulated depreciation and impairment	-	(23)	(751)	(107)	(881)
Net carrying amount	**4,655**	**6,187**	**20**	**48**	**10,910**

notes to the financial statements

for the year ended 30 June 2017

Reconciliation

A reconciliation of the carrying amount of each class of property, plant and equipment at the beginning and end of the prior reporting period is set out below:

	Capital Works in Progress $'000	Land and Buildings $'000	Leasehold Improvements $'000	Motor Vehicles $'000	Total $'000
Year ended 30 June 2016					
Net carrying amount at start of financial year	1,442	5,847	386	106	7,781
Additions	3,213	-	-	-	3,213
Disposals	-	-	(165)	(13)	(178)
Net revaluation increment less revaluation decrements	-	433	-	-	433
Depreciation expense	-	(93)	(201)	(45)	(339)
Net carrying amount at end of financial year	**4,655**	**6,187**	**20**	**48**	**10,910**

The capitalisation threshold for property, plant and equipment is $5,000 and above individually (or forming part of a network costing more than $5,000).

Physical non-current assets are valued in accordance with the *'Valuation of Physical Non-Current Assets at Fair Value'* Policy and Guidelines Paper (TPP 14-01). This policy adopts fair value in accordance with AASB 13 *Fair Value Measurement* and AASB 116 *Property, Plant and Equipment*.

Non-specialised assets with short useful lives are measured at depreciated historical cost, as an approximation of fair value. The Authority has assessed that any difference between fair value and depreciated historical cost is unlikely to be material.

The Authority revalues each class of property, plant and equipment at least every three years to ensure that the carrying amount of each asset in the class does not differ materially from its fair value at reporting date. The last revaluation for the land and building class was completed as at 31 March 2017 and was based on an independent assessment.

When assets are revalued, any balances of accumulated depreciation at the revaluation date in respect of those assets are credited to the asset accounts to which they relate. The net asset accounts are then increased or decreased by the revaluation increments or decrements.

Depreciation of property, plant and equipment

Depreciation is provided for on a straight line basis for all depreciable assets purchased so as to write-off the depreciable amount of each asset as it is consumed over its useful life to the Authority.

All material separately identifiable components of assets are depreciated over their useful lives.
The following depreciation rates were used:

Categories	%
Building premises	4
Leasehold improvements	Over lease term
Motor vehicles	25

notes to the financial statements

for the year ended 30 June 2017

8. Intangible assets

	Computer Software $'000	Total $'000
At 1 July 2016		
Cost (gross carrying amount)	4,861	4,861
Accumulated amortisation and impairment	(4,208)	(4,208)
Net carrying amount	**653**	**653**
At 30 June 2017		
Cost (gross carrying amount)	4,861	4,861
Accumulated amortisation and impairment	(4,581)	(4,581)
Net carrying amount	**280**	**280**

Reconciliation

A reconciliation of the carrying amount of each class of intangible assets at the beginning and end of the current reporting period is set out below:

	Computer Software $'000	Software WIP $'000	Total $'000
Year ended 30 June 2017			
Net carrying amount at start of financial year	653	-	653
Amortisation expense	(373)	-	(373)
Net carrying amount at end of financial year	**280**	**-**	**280**
At 1 July 2015			
Cost (gross carrying amount)	3,741	1,173	4,914
Accumulated amortisation and impairment	(3,692)	-	(3,692)
Net carrying amount	**49**	**1,173**	**1,222**
At 30 June 2016			
Cost (gross carrying amount)	4,861	-	4,861
Accumulated amortisation and impairment	(4,208)	-	(4,208)
Net carrying amount	**653**	**-**	**653**

notes to the financial statements

for the year ended 30 June 2017

Reconciliation

A reconciliation of the carrying amount of each class of intangible assets at the beginning and end of the prior reporting period is set out below:

	Computer Software $'000	Software WIP $'000	Total $'000
Year ended 30 June 2016			
Net carrying amount at start of financial year	49	1,173	1,222
Additions – internal development	-	(8)	(8)
Disposals	-	(46)	(46)
Transfers	1,119	(1,119)	-
Amortisation expense	(515)	-	(515)
Net carrying amount at end of financial year	**653**	**-**	**653**

The Authority recognises intangible assets only if it is probable that future economic benefits will flow to the Authority and the cost of the asset can be measured reliably. Intangible assets are measured initially at cost. Where an asset is acquired at no or nominal cost, the cost is its fair value at the date of acquisition.

The capitalisation threshold for intangible assets is $100,000 and above (including direct allocation of personnel service costs).

All research costs are expensed. Development costs are only capitalised when certain criteria are met.

The useful lives of intangible assets are assessed to be finite. The Authority charges amortisation on intangible assets using the straight-line method over a period of three years.

The Authority reviews its amortisation rate and method on an annual basis.

Intangible assets are subsequently measured at fair value only if there is an active market. As there is no active market for the Authority's intangible assets, the assets are carried at cost less any accumulated amortisation and impairment losses.

Intangible assets are tested for impairment where an indicator of impairment exists. If the recoverable amount is less than its carrying amount, the carrying amount is reduced to recoverable amount and the reduction is recognised as an impairment loss.

notes to the financial statements

for the year ended 30 June 2017

9. Fair value measurement of non-financial assets

The Authority recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. Refer Note 17 for further disclosures regarding fair value measurements of financial assets.

(a) Fair value hierarchy

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total Fair value $'000
2017				
Property, plant and equipment (Note 7)				
Land and buildings (including WIP)	-	5,372	3,889	9,261
	-	**5,372**	**3,889**	**9,261**
2016				
Property, plant and equipment (Note 7)				
Land and buildings (including WIP)	-	5,837	5,005	10,842
	-	**5,837**	**5,005**	**10,842**

There were no transfers between Level 1 and Level 2 during the period.

(b) Valuation techniques, inputs and processes

Land at Collaroy (the Sargood Foundation building) is measured using the income approach as it is subject to a long term lease. This lease is for a period of 30 years with an option for a further 30 year term at the discretion of the lessee, with a rental return of $10 per year. The estimated fair value of this land will increase significantly if the restrictions on the use of the site were removed. The remainder of the Authority's buildings have been valued using a market approach.

The remainder of the Authority's assets are non-specialised and are measured using the market approach. NSW Treasury Policy paper 14-01 *Valuation of Physical Non-Current Assets at Fair Value* allows non-specialised assets with short useful lives to be recognised at depreciated historical cost as a surrogate for fair value. Depreciated historical cost is an appropriate surrogate for fair value because any difference between fair value and depreciated historical cost is unlikely to be material and the benefit of ascertaining a more accurate fair value does not justify the additional cost of obtaining it.

notes to the financial statements

for the year ended 30 June 2017

(c) Reconciliation of recurring Level 3 fair value measurements

	2017		2016	
	Land and buildings including WIP $'000	Total Recurring Level 3 Fair value $'000	Land and buildings including WIP $'000	Total Recurring Level 3 Fair value $'000
Fair value at 1 July	5,005	5,005	1,712	1,712
Additions	24	24	3,213	3,213
Transfers	560	560	-	-
Depreciation	(101)	(101)	-	-
Revaluation	(1,599)	(1,599)	80	80
Fair value at 30 June	**3,889**	**3,889**	**5,005**	**5,005**

Additions relate to a special purpose building at Coffs Harbour.

10. Restricted assets

NSW Workers Insurance Scheme – Workers Care

The Authority is holding funds that have been advanced by the NSW Workers Insurance Scheme to meet the costs of severely injured workers who have services provided by the Authority. These funds are viewed as being "restricted" as the funds cannot be utilised by the Authority for any other purpose than meeting the costs of severely injured workers on behalf of the NSW Workers Insurance Scheme.

Once costs have been incurred by the Authority, an invoice is raised to the NSW Workers Insurance Scheme to restore the amount advanced back to the original amount advanced.

	2017 $'000	2016 $'000
Assets		
Cash and cash equivalents – Advance held by Authority	784	710
Receivable – from NSW Workers Insurance Scheme	216	290
	1,000	**1,000**
Liabilities		
Creditor – held in trust for NSW Workers Insurance Scheme	1,000	1,000
	1,000	**1,000**
Net Assets	**-**	**-**

notes to the financial statements

for the year ended 30 June 2017

11. Investments accounted for using the equity method

	2017 $'000	2016 $'000
Share of equity in Sargood Centre	**2,248**	**1,807**

The Authority has one-third member interests in the Sargood Centre (the Centre), a not-for-profit company limited by guarantee. The Authority is not entitled to any distribution of funds from the Centre. The Authority's member interests is recognised in these accounts in accordance with AASB 128 *Investments in Associates* using the equity method of accounting as mandated by NSW Treasury Circular TC 16/02.

The primary focus of the Centre is to facilitate the operation of a life learning facility for people with traumatic spinal cord injury and to provide medical and health related services for people in Australia with spinal cord injuries and similar conditions.

As part of the funding agreement with the Centre, the Authority has entered into an agreement to lease land acquired by the Authority at minimal fee for 30 years to facilitate the construction of the facility. The Centre holds an option to extend the lease for a similar term.

The Authority has also provided a grant of $9.96M for the construction and fit out of the facility including equipment in 2012. ERF Industries Proprietary Limited which also holds one-third member interests in the Centre, has also provided a grant of $5M for these purposes. The other equal member in the Centre is the Ability Australia Foundation.

Under the agreement with other members, the Authority has committed to take up 2 beds in the Sargood facility for 2 years from March 2017.

(a) Summarised financial information of Sargood Centre based on unaudited financials

	2017 $'000	2016 $'000
Total revenue	1,535	344
Total expenses excluding losses	(210)	(198)
Net result	**1,325**	**146**
Other comprehensive income	-	-
Total comprehensive income	**1,325**	**146**
Total assets	16,709	16,336
Total liabilities	(4)	(956)
Net assets	**16,705**	**15,380**
Total equity	**16,705**	**15,380**

Should there be any unexpended funds (including accumulated interest revenue) at the time the current funding agreement ends or is terminated, the Centre is not required to pay back the amount to the Authority but rather it must ensure that funding is then applied towards further development or improvement or operation of the Centre.

The Centre has granted to the Authority the second fixed and floating charge after ERF Industries Proprietary Limited over its assets.

notes to the financial statements

for the year ended 30 June 2017

12. Payables

	2017 $'000	2016 $'000
Investments Payable	2,819	38,341
Service fee	6,413	3,190
Accrued expenses	5,687	7,605
Creditors	784	-
	15,703	**49,136**

These amounts represent liabilities for goods and services provided to the Authority and other amounts. Payables are recognised initially at fair value, usually based on the transaction cost or face value. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

Details regarding credit risk, liquidity risk, and market risk, including a maturity analysis of the above payables are disclosed in Note 17.

13. Provisions

	2017 $'000	2016 $'000
Claims provisions		
Provision for participant care and support services	**3,343,065**	**2,939,006**
Other provisions		
Restoration	**132**	**101**
Total Provisions	**3,343,197**	**2,939,107**

A restoration provision is recognised for the estimate of future payments for restoration upon the termination of the leases of the current office premises. The effect of discounting is immaterial.

notes to the financial statements

for the year ended 30 June 2017

Movements in the provisions

Movements in each class of provision during the financial year, are set out below:

	Participant care and support services $'000	Restoration costs $'000	Total $'000
2017			
Carrying amount at the beginning of financial year	2,939,006	101	2,939,107
Additional provisions	-	31	31
Actuarial losses	41,465	-	41,465
New claims incurred since 30 June	315,832	-	315,832
Amount used	(125,658)	-	(125,658)
Unwinding / change in the discount rate	172,420	-	172,420
Carrying amount at end of financial year	**3,343,065**	**132**	**3,343,197**

The finance costs above represent the increase in the liability for outstanding claims from the end of the previous financial year to the end of the current financial year which is due to discounted claims not settled being one period closer to settlement.

Provision for participants' care and support services

Under the *Motor Accidents (Lifetime Care and Support) Act 2006*, the Authority meets participant care and support services for severely injured persons from motor accidents. Entitlement to these services commenced for children under 16 years of age from 1 October 2006 and for adults from 1 October 2007. At 30 June, the liabilities for all claims incurred up to this date to the scheme were valued by actuaries at PricewaterhouseCoopers Actuarial.

The liability for participants' care and support services are measured as the present value of the expected future payments. The present values after discounting are as follows:

	2017 $'000	2016 $'000
Not later than one year	139,530	126,626
Later than one year but not later than five years	475,123	421,452
Later than five years	2,728,412	2,390,928
Total	**3,343,065**	**2,939,006**

The liabilities for participants' care and support services are valued by the Actuaries as at the end of the financial year. They are measured as the present value of the expected future payments for all claims incurred up to the valuation date.

The inflation and discount factors used in measuring the liability for outstanding participants care and support costs are based on investment return rates of 2% (2016 2%) higher than the inflation rate of participant care costs.

	2017 Years	2016 Years
Weighted mean term		
Uninflated, undiscounted	24.7	25.1
Inflated, discounted	19.5	19.7

notes to the financial statements

for the year ended 30 June 2017

Sensitivity analysis for the valuation as at 30 June 2017

The liability represents the central estimate and is based on standard actuarial assessment. The table below shows the sensitivity of the valuation to changes in some of the key assumptions. Uncertainty exists due to the long-term nature of liabilities and volatility around the number of Scheme participants and their injury severity. If the Lifetime Care and Support Scheme was an insurer (which it is not), then under Australian Accounting Standard AASB 1023 it would be required to add a risk margin to its liabilities. Based on the minimum level required by APRA of a 75% probability of Sufficiency/Adequacy this would result in the Authority's liabilities increasing by $501.5 million (2016 $440.9 million) and reducing its accumulated surplus to $1,310.7 million (2016: $1,055.1 million).

	30 June Liability $M	Effect on 30 June Liability $M	Percentage Effect %
Central estimate of LTCSA Scheme			
All valuation assumptions used			
Change in number of participants eligible:			
(a) Assuming current interim participants are deemed not lifetime	3,321	(22)	(1)
Different long term gap assumptions:			
(a) One per cent per annum lower for all future years	4,089	746	22
(b) One per cent per annum higher for all future years	2,790	(553)	(17)
(c) One percent increase in the discount rate	2,812	(531)	(16)
(d) One percent decrease in the discount rate	4,068	725	22
Change in standard mortality ratio (SMR) assumptions:			
(a) Fifteen per cent decrease in SMR for all severities	3,517	174	5
(b) Fifteen per cent increase in SMR for all severities	3,192	(151)	(5)
Change in participant age distributions:			
(a) Assume the actual age distribution for the past 12 months for TBI and SCI	3,338	(5)	0
No future increases in Attendant Care award rate beyond inflation	3,267	(76)	(2)
Future increases in Attendant Care award rate beyond inflation increases by 1% to 2020	3,421	78	2
No average payment cost changes beyond 5 years post injury for:			
(a) Attendant Care	2,673	(670)	(20)
(b) Rehabilitation	3,387	44	1
Different levels of improvement in brain injury severity:			
(a) Expected level of Care and Needs Scale (CANS) improvement from previous analysis	3,335	(8)	0
(b) Half the amount of CANS improvements assumed	3,472	129	4

notes to the financial statements

for the year ended 30 June 2017

	30 June Liability $M	Effect on 30 June Liability $M	Percentage Effect %
Using risk free yield curve for the next fifteen years instead of constant six percent discount rate:			
(a) Constant from year fifteen onwards	5,544	2201	66
(b) Real gap of two percent from year fifteen onwards	4,712	1,369	41
(c) Using all of icare's risk free yield curve (which becomes flat at year 30)	5,101	1,758	53

14. Commitments for expenditure

	2017 $'000	2016 $'000
Operating lease commitments		
Future non-cancellable operating lease rentals not provided for and payable:		
Not later than one year	581	563
Later than one year but not later than five years	1,743	1,920
Later than five years	1,292	1,696
Total (including GST)	**3,616**	**4,179**

The Authority leases offices under non-cancellable operating leases expiring within three years. The leases have varying terms, escalation clauses and renewal rights.

Expenditure commitments for the Authority include input tax credits of $0.4M (2016: $0.4M) which are expected to be recoverable from the Australian Taxation Office.

15. Contingent liabilities and contingent assets

The Authority does not have any contingent asset or liability at reporting date (2016: nil).

notes to the financial statements

for the year ended 30 June 2017

16. Administered assets and liabilities

The Authority has direction and management responsibility for a fund managed on behalf of the ACT government. The Authority is acting in capacity as agent and as such Assets and Liabilities of the fund are not recognised in the Authorities Statement of Financial Position, but are shown separately as “Administered Assets and Liabilities”.

Section 43A of the *Motor Accidents (Lifetime Care and Support) Act 2006 (NSW)* (NSW Act) enables the Authority to enter into care and support arrangements by agreement with relevant authorities to provide services to injured persons who are eligible under similar lifetime care schemes that have been prescribed by regulation under the NSW Act, which agreements may confer functions on the Authority to be exercised for and on behalf of the relevant authority.

Section 12 of the *Lifetime Care and Support (Catastrophic Injuries) Act 2014 (ACT)* (ACT Act) permits the Lifetime Care and Support Commissioner of the Australian Capital Territory, appointed in accordance with s.10 of the ACT Act (ACT Commissioner) to delegate the ACT Commissioner’s functions to an authorised person, and the Authority is an authorised person in accordance with the ACT Act.

The ACT has sought agreement from the Authority to administer the ACT Scheme on behalf of the ACT Commissioner and NSW and the ACT have entered into an Inter-Governmental Agreement to establish an agreed framework of commitments for this Agreement.

	2017 $’000	2016 $’000
Revenue		
Funding provided by ACT government to meet participant scheme costs	487	318
	487	**318**
Expenses excluding losses		
Participant scheme costs	487	318
	487	**318**
Net result	**-**	**-**
Assets		
Cash and cash equivalents	215	290
Receivable – from ACT government	14	224
	229	**514**
Liabilities		
Creditors	7	189
Income received in Advance	222	325
	229	**514**
Net Assets	**-**	**-**

notes to the financial statements

for the year ended 30 June 2017

17. Financial instruments

The Authority's principal financial instruments are outlined below. These financial instruments arise directly from the Authority's operations or are required to finance the Authority's operations. The Authority does not enter into or trade financial instruments, including derivative instruments, for speculative purposes.

The Authority's main risks arising from financial instruments are outlined below, together with its objectives, policies and processes for measuring and managing risk. Further quantitative and qualitative disclosures are included throughout these financial statements.

The Board has overall responsibility for the establishment and oversight of risk management and reviews and agrees policies for managing each of these risks. Risk management policies are established to identify and analyse the risk faced by the Authority to set risk limits and controls and to monitor risks. Compliance with policies is reviewed by sub-committee's of the board on a continual basis.

In May 2015, NSW Treasury Corporation (TCorp) was appointed to provide investment management and administration services to icare managed investment funds. TCorp is engaged through a Master Financial Services Agreement (MFSA) which details, amongst other things, the service and reporting provisions. Service levels and compliance to the MFSA are monitored through icare's Finance & Services team.

Financial Assets

The Authority is ultimately responsible for identifying and controlling financial risks including the establishment of an overall financial risk management strategy and policy.

(a) Financial instrument categories

	Notes	Category	Carrying Amount 2017 $'000	Carrying Amount 2016 $'000
Financial Assets				
Class:				
Cash and cash equivalents	4	N/A	307,702	281,019
Receivables[1]	5	Loans and receivables (at amortised cost)	12,459	55,957
Investments	6	At fair value through profit or loss – designated as such upon initial recognition	4,789,349	4,088,628
Financial Liabilities				
Class:				
Payables[2]	12	Financial liabilities (at amortised cost)	15,703	49,136

1 Excludes statutory receivables and prepayments (i.e. not within scope of AASB 7).

2 Excludes statutory payables and unearned revenue (i.e. not within scope of AASB 7).

notes to the financial statements

for the year ended 30 June 2017

(b) Credit risk

Credit risk arises when there is the possibility that the counterparty will default on their contractual obligations, resulting in a financial loss to the Authority. The maximum exposure to credit risk is generally represented by the carrying amount of the financial assets (net of any allowance for impairment).

Credit risk arises from the financial assets of the Authority, including cash, receivables and Authority deposits. No collateral is held by the Authority. The Authority has not granted any financial guarantees.

Credit risk associated with the Authority's financial assets other than receivables, is managed through the selection of counterparties and establishment of minimum credit rating standards. Authority deposits held with NSW Treasury Corporation (TCorp) are guaranteed by the State.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

(i) Exposure:

Credit risk arises from the Authority's investments as a result of the investment managers trading with various counterparties and purchasing the debt of corporate and government borrowers. These activities could result in the Authority not being able to receive benefits as a result of a failing counterparty. The Authority's main credit risk concentration is spread between cash, indexed and interest bearing investments and over-the-counter, in-the-money derivatives.

Credit risk also arises from the Authority's receivables. Disclosures relating to the Authority's receivables are included in Note 5.

(ii) Risk management objective, policies and processes:

Credit Guidelines have been determined to ensure the Authority has controlled levels of credit concentration. These guidelines are at a total Authority level, with further asset class specific restrictions in investment managers mandates where applicable. In addition, where possible collateral arrangements may be implemented to reduce the Authority's exposure.

The exposure is reported against set guidelines both from an individual managers' compliance and at a total Authority level. Reporting is provided by the Authority's custodian and delivered to management for monitoring.

Credit risk arising on financial instruments is mitigated by investing primarily in rated instruments as determined by Standard and Poor's, Moody's or Fitch. The Authority minimises its credit risk by monitoring counterparty creditworthiness.

(iii) Quantitative analysis of exposure:

The Authority's maximum credit risk exposure at balance date in relation to each class of recognised financial asset, other than derivative financial instruments, is the carrying amount of those assets as indicated in the Statement of Financial Position.

In relation to over the counter derivative financial instruments, credit risk arises from the potential failure of counterparties to meet their obligations under the contract or arrangement.

Derivatives

The use of derivative financial instruments is governed by the Authority's policies. The Authority enters into derivative contracts for the purpose of gaining market and/or duration exposure or offsetting existing risk exposures.

The table below shows the fair value of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of a derivative is measured. The notional amounts are indicative of the exposure of the Authority to movements in the instrument underlying the derivatives. The notional amounts do not represent the credit risk of the derivative positions that is equal to the fair value.

The fair value amounts reported in the Statement of Financial Position, and the amounts reported in the following tables are the net value of individual swap positions where there is the ability to settle the swaps on a net basis and the Authority intends to settle on this basis.

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for the year ended 30 June 2017

	Assets $'000	Liabilities $'000	Notional amount $'000
2017			
Futures:			
Interest rate futures	3,410	95	53,900
Option	694	-	850,000
	4,104	95	903,900
2016			
Futures:			
Interest rate futures	3	668	45,550
Option	7,634	-	650,000
	7,637	**668**	**695,550**

Indexed and interest bearing investments

The majority of the indexed and interest bearing investments held by the Authority are held with issuers rated investment grade by Standard and Poor's, Moody's or Fitch. The ratings assigned to the Authority's indexed and interest bearing investments at the end of the reporting period were as follows:

	2017 $'000	2017 %	2016 $'000	2016 %
Rating				
AAA/aaa	1,353,933	91	1,140,639	90
AA/Aa	139,681	9	126,769	10
Total	**1,493,614**	**100**	**1,267,408**	**100**

Cash and cash equivalents

Cash comprises cash on hand, balances held at private financial institutions, term deposits with a maturity of less than 12 months and bank balances within the NSW Treasury Banking System. Interest is earned on daily bank balances on funds in the NSW Treasury Banking System at the Reserve Bank of Australia's prevailing cash rate.

Receivable – trade debtors

All trade debtors are recognised as amounts receivable as at balance date. Collectability of trade debtors is reviewed on an ongoing basis. Procedures as established in the Treasurer's Directions are followed to recover outstanding amounts, including letters of demand. Debts which are known as uncollectible are written off. An allowance for impairment is raised when there is objective evidence that the Authority will not be able to collect all amounts due. This evidence includes past experience, and current and expected changes in economic conditions. There is no independently assessed rating of the clients other than past experience and their compliance with credit terms, these credit terms are monitored by management on a monthly basis. No interest is earned on trade debtors. Sales are made on 30 day terms.

The Authority is not materially exposed to concentrations of credit risk to a single trade debtor or group of debtors. At balance date, no debtors are past due nor are they determined as impaired (2016: nil).

notes to the financial statements

for the year ended 30 June 2017

(c) Liquidity risk

Liquidity risk is the risk that the Authority will be unable to meet its payment obligations when they fall due. The Authority continuously manages risk through monitoring future cash flows and maturities planning to ensure adequate holding of high quality liquid assets. The objective is to maintain a balance between continuity of funding and flexibility through the use of overdrafts, loans and other advances, if applicable.

The Authority does not have any loans payable and no assets have been pledged as collateral. The Authority's exposure to liquidity risk is deemed insignificant based on prior periods' data and current assessment of risk.

The liabilities are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in NSW Treasury Circular NSWTC 11/12. There were no late penalty payments in 2016/17.

The Authority's exposure to liquidity risk for payables is deemed insignificant based on prior period's data and current assessment of risk.

The Authority is exposed to liquidity risk from holding financial assets that may not be readily convertible to cash to meet financial liabilities and claims costs.

(i) Exposure:

The financial assets of the Authority that may not be readily convertible to cash are largely receivables (refer Note 5) and investments in over-the-counter or thinly traded investments and principally unlisted property trusts.

(ii) Risk management objective, policies and processes:

The Authority maintains adequate liquidity to meet the daily cash requirements for claims payments and other operating costs.

To assist in meeting its liquidity risk management objectives, the Authority maintains a cash balance and invests most of its assets in investments that are traded in active markets that can be readily disposed of.

The Authority invests a proportion of its assets in less liquid listed investments or investments that are not traded on active markets and this is strictly controlled in accordance with the asset allocation together with a policy which limits exposure to illiquid investments.

Each investment manager is responsible for cashflow management of the assets that have been mandated to them. That is, each investment manager is responsible for managing settlement liquidity risk. The custodian supplies daily reporting to each investment manager to assist them in this process.

(iii) Quantitative analysis of exposure:

The financial liabilities of the Authority comprise interest and other payables. The types of financial liabilities of the Authority were similar at 30 June 2016.

Cash due to brokers is payable on demand. Interest and other payables are typically settled within 30 days. If the derivative positions are closed out prior to maturity by entering into offsetting transactions, the Authority settles its derivative obligations in cash rather than physical delivery.

The other Authority liabilities are either participant care and support related whose maturity is disclosed in Note 13 or are related to Authority operations and have a maturity of less than 12 months.

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for the year ended 30 June 2017

Maturity analysis and interest rate exposure of financial liabilities

	Weighted Average Effective Interest Rate %	Nominal Amount[1] $'000	Interest Rate Exposure: Fixed Interest Rate $'000	Variable Interest Rate $'000	Non-interest bearing $'000	Maturity Dates: < 1 year $'000	1–5 years $'000	> 5 years $'000
2017								
Payables	N/A	15,703	-	-	15,703	15,703	-	-
2016								
Payables	N/A	49,136	-	-	49,136	49,136	-	-

Notes:
1 The amounts disclosed are the contractual undiscounted cash flows of each class of financial liabilities based on the earliest date on which the Authority can be required to pay. The tables include both interest (if applicable) and principal cash flows and therefore may not reconcile to the statement of financial position.

(d) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Market risk arises as a result of the Authority holding cash and cash equivalents and trading investments as part of its asset allocation.

The Authority seeks to manage exposure to market risk so that it can generate sufficient returns to meet the Authority's current and future liabilities and mitigate the risk that the Authority's investments will be insufficient to meet such liabilities. The Authority's portfolio of investments is invested in accordance with its strategic asset allocation. The goal of the strategic asset allocation is to construct a portfolio that achieves the Authority's investment objectives including a return in excess of the liability discount rate, while limiting the probability of large declines in the Authority's funding ratio.

The actual asset allocations can deviate from the benchmark asset allocation due to:

- Authority cash flows;
- Fluctuations in market prices; and
- Dynamic asset allocation decisions.

Dynamic asset allocation refers to medium term shifts away from the strategic asset allocation which are designed to capture market opportunities or to mitigate risks.

The deviations in actual versus benchmark asset allocation at the end of the reporting period were within the agreed tolerance limits for all asset classes.

Based on the asset allocation TCorp appoints investment managers in each asset class, following consultation with icare. Management of the Authority's assets is allocated to the appointed investment managers. Each investment manager is subject to restrictions in relation to the types of assets in which it may invest, and in relation to the composition of investments within certain asset types. These restrictions are expressed in formalised mandates; typically contained in individually negotiated Investment Management Agreements or as described in Information Memoranda (or similar documents) issued by the relevant investment manager where the investment is via a pooled fund. The investment mandates are monitored on a daily basis to ensure that investment managers are compliant with their mandates and relevant agreements.

Each investment manager is responsible for managing security specific risk using its distinct management style. Each investment manager is also responsible for constructing a portfolio that aims to achieve its own investment objectives while complying with the restrictions and guidelines contained in the mandate or Information Memorandum.

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A risk budgeting framework is used to help determine an appropriate strategic asset allocation for the Authority. This framework incorporates the risk and return characteristics of the different asset classes in the portfolio and additional factors such as inflation and interest rates. Within this framework, a number of risk measures are employed including the frequency of negative returns, the volatility of the investment portfolio relative to the value of the liability and Value-at-Risk (VaR) analysis.

TCorp, in conjunction with it's asset consultant conducts the risk budgeting analysis utilising:

- Assumptions regarding the expected level of return, risk and correlations between price and wage inflation, bond yields and returns from different asset classes (for example equities, bonds, property and alternative assets); and
- Assumptions regarding the duration of inflation-linked and other liabilities consistent with those used by the Authority's Actuary.

The analysis incorporates scenario analysis to determine the risk and return of different investment strategies relative to the change in the liabilities over a period. The analysis is primarily used to compare different investment strategies, and then to determine the investment strategy that has the appropriate level of risk, given the risk and return objectives of the Authority.

The risk budgeting analysis is based on certain simplifying assumptions such as statistical characteristics of investment returns, volatilities and correlations – that may not represent actual outcomes. It is also important to note that the analysis only allows for some economic factors such as inflation and bond yields, which affect the value of the Authority liabilities. It does not allow for other factors such as the claims loss ratio, claims incidence and recovery rates, which also affect the value of the Authority liabilities. As such, the analysis may not be accurate in its assessment of the liability.

The VaR risk measure seeks to estimate the potential investment loss over a given holding period at a specified confidence level. The VaR methodology is a statistically-defined, probability-based approach to risk assessment that takes into account market volatilities as well as risk diversification by identifying offsetting positions and correlations between financial instruments and markets. The VaR methodology allows risks to be measured consistently across all markets and financial instruments and to be aggregated into a single risk number.

The risk budgeting framework assesses the Authority's VaR at the 95th percentile confidence level over a 12 month time period. This represents the minimum expected reduction in the value of the Authority's investment portfolio which has a 5 per cent chance of exceeding over a one year period.

In addition to a VaR measure, the risk budgeting framework is also used to assess the following risk and return characteristics:

- Expected return on the investment portfolio;
- Probability of meeting return targets that incorporate measures of wage inflation; and
- The performance of the investment portfolio under different economic scenarios.

The most recent VaR analysis performed by asset consultant Mercer Investments (Australia) limited was conducted in July 2017 based on the June 2017 financial instruments and is computed via forward looking simulation using a 95 per cent confidence interval and a 1-year holding period.

The Authority uses a Value-at-Risk (VaR) model to measure the market risk exposures to its invested assets in the balance sheet. VaR is calculated using simulated forward looking expected returns at the 95th percentile confidence level over a 12 month time period. The VaR methodology allows risks to be measured consistently across all markets and financial instruments and to be aggregated into a single risk number.

Given the Authority's financial instruments at 30 June 2017, the minimum potential loss expected over a one year period is $265.3 million (June 2016: $224.4 million), with a 5 per cent probability that this minimum may be exceeded.

notes to the financial statements

for the year ended 30 June 2017

(e) Interest rate risk

Interest rate risk is the risk that the (fair) value of a financial instrument will fluctuate because of changes in market interest rates. The value of the Authority's liabilities is also affected by interest rate fluctuations.

(i) Exposure:

Interest rate risk arises as a result of the Authority holding financial instruments which are subject directly or indirectly to changes in value as a result of interest rate fluctuations. Authority liabilities are similarly subject directly or indirectly to changes in value as a result of interest rate fluctuations.

(ii) Risk management objective, policies and processes:

The interest rate risk of the Authority is managed primarily through its strategic asset allocation and mandate objective setting. At 30 June 2017 the Authority had a 27 per cent (2016: 25 per cent) allocation to Australian Commonwealth and state government bonds to mitigate interest rate risk of Authority liabilities. Of that allocation, 18 per cent (2016: 10 per cent) are an allocation to Australian Commonwealth and state government inflation linked bonds to mitigate inflation risk of Authority liabilities.

Interest rate risk arises as a result of the Authority holding financial instruments which are subject directly or indirectly to changes in value as a result of interest rate fluctuations. Authority liabilities are similarly subject directly or indirectly to changes in value as a result of interest rate fluctuations.

notes to the financial statements

for the year ended 30 June 2017

(iii) Quantitative analysis of exposure:

The table below summarises the Authority's exposure to interest rate risks. It includes the Authority's indexed and interest-bearing financial assets and liabilities at fair values, categorised by the earlier of their contractual re pricing or maturity dates.

The table does not show all assets and liabilities of the Authority. Assets and liabilities not shown in the table below are not indexed and interest bearing and are therefore not directly exposed to interest rate risk.

	Floating interest rate $'000	Fixed interest rate maturing in: 3 months or less $'000	4 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
2017						
Class						
Cash	102,503	-	-	-	-	102,503
Money market deposits	-	49,524	155,675	-	-	205,199
Indexed and interest bearing securities	1,001,922	-	-	153,368	338,324	1,493,614
Interest rate futures	-	3,315	-	-	-	3,315
Options	678	16	-	-	-	694
Assets	**1,105,103**	**52,855**	**155,675**	**153,368**	**338,324**	**1,805,325**
2016						
Class						
Cash	80,330	-	-	-	-	80,330
Money market deposits	-	46,456	154,233	-	-	200,689
Indexed and interest bearing securities	870,825	-	-	176,197	220,386	1,267,408
Interest rate futures	-	(665)	-	-	-	(665)
Options	-	-	7,634	-	-	7,634
Assets	**951,155**	**45,791**	**161,867**	**176,197**	**220,386**	**1,555,396**

The Authority's exposure to interest rate risk is considered a component of market price risk and is quantified as part of the VaR analysis discussed under Market risk.

The Authority is exposed to interest rate cash flow risk on its floating rate interest bearing securities as interest income earned varies according to prevailing market interest rates.

notes to the financial statements

for the year ended 30 June 2017

(f) Fair value estimation

The carrying amounts of the Authority's financial assets and liabilities at the end of the reporting period approximated their fair values as all financial assets and liabilities held were either at fair value at the end of the reporting period ('marked to market') or were short term in nature.

The financial assets and liabilities are classified in accordance with the following fair value measurement hierarchy:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices), and
- Level 3 – inputs for the assets or liabilities that are not based on observable market data.

	2017				2016			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	TOTAL $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000	TOTAL $'000
Other Financial assets								
Indexed and interest bearing securities	1,352,997	140,617	-	1,493,614	1,101,034	166,374	-	1,267,408
Unit Trusts	-	2,558,548	733,178	3,291,726	-	2,288,791	525,460	2,814,251
Derivatives	3,410	694	-	4,104	3	7,634	-	7,637
	1,356,407	**2,699,859**	**733,178**	**4,789,444**	**1,101,037**	**2,462,799**	**525,460**	**4,089,296**
Other Financial liabilities								
Derivatives	95	-	-	95	668	-	-	668
	95	**-**	**-**	**95**	**668**	**-**	**-**	**668**

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets of the Authority is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example over-the-counter derivatives) is determined using valuation techniques. A variety of methods are used which include assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used to estimate fair value for debt securities for disclosure purposes. Evaluations of such securities are based on market data. Vendors utilise evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information and for structured securities, cash flow and when available loan performance data.

Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the end of the reporting period. These instruments are included in level 2 and comprise debt instruments and derivative financial instruments.

notes to the financial statements

for the year ended 30 June 2017

Transfer between levels

The Authority recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfer has occurred.

The following table presents the movement in level 3 instruments for the year ended 30 June.

	2017 $'000	2016 $'000
Opening balance	525,460	353,399
Transfers into Level 3	-	-
Purchases of securities	186,049	130,883
Sale of securities	-	-
Transfer out of Level 3	-	-
Gain / (loss) in Profit & Loss (investment income)	21,669	41,178
Closing balance	**733,178**	**525,460**
Total gains/(losses) for the period included in profit or loss that relate to assets held at the end of the reporting period (shown in investment income)	**21,669**	**41,178**

The table below sets out information about significant unobservable inputs used at year end in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

Type	Description	Valuation technique	Significant unobservable inputs
Unit Trusts	Units in unlisted property and infrastructure trusts	Net asset value	Published redemption prices

Valuation framework

The Authority has an established control framework with respect to the measurement of fair values. This framework has been outsourced to an external service provider which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls conducted by the outsourced service provider include:

- Verification of observable pricing;
- Re-performance of model valuations;
- A review and approval process for new models and changes to models;
- Quarterly calibration and back testing of models against observed market transactions;
- Analysis and investigation of significant daily valuation movements;
- Review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared to previous month.

notes to the financial statements

for the year ended 30 June 2017

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, the outsourced service provider assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of accounting standards. This includes:

- Verifying that the broker or pricing service is approved by the Master Custodian of the Authority for use in pricing the relevant type of financial instrument;
- Understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
- When prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement;
- Where a number of quotes for the same financial instrument have been obtained, how fair value has been determined using those quotes.

Significant valuation issues are reported to the Board's Audit and Risk Committee.

Involvement with unconsolidated structured entities

The Authority has concluded that unlisted investment funds in which it invests, but that it does not consolidate, meet the definition of structured entities because:

- The voting rights in the funds are not dominant rights in deciding who controls them as they relate to administrative tasks only;
- Each fund's activities are restricted by its prospectus; and
- The funds have narrow and well-defined objectives to provide investment opportunities to investors.

The table below describes the types of structured entities that the Fund does not consolidate but in which it holds an interest, set out by investment strategy.

	2017		2016	
	Net Market Value as at 30 June 2017 $'000	Exposure	Net Market Value as at 30 June 2016 $'000	Exposure
Property	469,417	14%	427,906	15%
Shares	2,322,336	70%	2,078,795	74%
Strategic	83,089	3%	81,000	3%
Multi asset	153,123	5%	128,996	5%
Infrastructure	263,761	8%	97,554	3%
Total	**3,291,726**	**100%**	**2,814,251**	**100%**

The above table lists the net market value and the Authority's percentage exposure to each investment strategy as at 30 June. These unconsolidated structured entities are included under unit trusts in Note 6. The maximum exposure or loss is limited to the net market value of the investment strategy as at 30 June 2017. The net market value of the exposure will change on a daily basis throughout the period and in the subsequent periods will cease once the investments are disposed.

The investments of the Authority are managed in accordance with the investment mandates with respective underlying investment managers. The investment decisions of the mandate are based on the analysis conducted by the investment manager. The return of the portfolio is exposed to the variability of the performance of the underlying management of these investments.

notes to the financial statements

for the year ended 30 June 2017

18. Related Party Disclosure

The Authority has an agreement with its equity partner Sargood under which it provides land at Collaroy at which the facility was built. The land has been leased to the Centre, for nominal consideration. (Refer Note 9(b) for further details).

19. Capital management

Capital management is an integral part of icare's risk management framework. One of the key objectives of the Authority is to have sufficient capital to meet its obligations to its participants, even under adverse conditions.

The Board of icare set a Capital Management Policy which defines a Target Capital Ratio and Target Operating Zone for the Authority.

To determine the Authority's Target Capital Ratio and Target operating Zone, consideration was given to the following:

- The unique nature of the business from both various perspectives – internal (financial and operational) and external (economic and political)
- The Authority's strategic objectives and the risks of not achieving them
- The regulatory requirements of the Australian Prudential Regulation Authority (APRA), consistency with the insurance industry and best practice

Under this policy the Authority will be managed towards holding excess capital above the Minimum Capital Requirement within a defined range as set out in the Target Capital Ratio Policy.

The Board has determined that the target operating zone for the Authority is between 130–150%. This means that the Authority's Policy Capital Ratio defined as the value of the Authority's assets to liabilities (that does not include a risk margin) should be between 130–150%. The actual capital ratio at 30 June 2017 was 154%.

The Capital Management policy details actions required where the Policy Capital Ratio falls outside of the target operating zone.

The Capital Management Framework is reviewed annually by Management or as directed by the Board or RCAC. Any recommendations for change are endorsed by the RCAC and approved by the Board.

End of audited financial statements

self insurance

self insurance financial statements

for the year ended 30 June 2017

ICARE SELF INSURANCE

Actuarial Certificate
Outstanding claims liabilities at 30 June 2017

PricewaterhouseCoopers Consulting (Australia) Pty Ltd (PwC) has been contracted by Insurance & Care NSW (icare) to make estimates of the workers' compensation outstanding claims liabilities as at 30 June 2017 of the following funds that icare operates:

- The State Rail Authority and Rail Infrastructure Corporation, (collectively "Rail" Schemes) for claims incurred prior to 1 October 2009
- The Governmental Workers' Compensation Account ("GWC") of NSW Treasury
- The Electricity Assets Ministerial Holding Corporation ("EAMHC")
- The Electricity Transmission Ministerial Holding Corporation ("ETMHC")
- The Bush Fire Fighters Compensation Fund ("BFFCF")
- The Emergency and Rescue Workers Compensation Fund ("ERWCF")

collectively referred to as the "Funds".

Data

PwC has relied on historical data and other quantitative and qualitative information supplied by icare without audit or independent verification. We did, however, review this information for reasonableness and internal consistency, where possible. The accuracy of our results is dependent upon the accuracy and completeness of the underlying data.

Basis of Our Estimates

We have made central estimates of the outstanding claims liabilities, this means that our assumptions have been selected to yield estimates that are not knowingly above or below the ultimate liabilities. Our estimates include allowances for:

- Future inflation assumptions, as provided by icare;
- Future investment return at a rate of 2.36% per annum for non-dust disease claims in EAMHC and 4.50% per annum for all other liabilities of the Funds, based on advice by icare and NSW Treasury; and
- Future expected recoveries.

The estimates do not include any allowance for a risk margin.

pwc

Valuation Results

The PwC estimated liabilities as at 30 June 2017, net of recoveries, including claims handing expenses are summarised in the following table:

Table 1 - icare Self Insurance Outstanding Claims Liability at 30 June 2017 ($M)	Rail	GWC	EAMHC	ETMHC	BFFCF	ERWCF
Gross Outstanding Claims	81	79	21	11	14	18
Less Anticipated Recoveries	16	3	0	8	1	0
Net Outstanding Claims	64	77	21	4	13	18

The gross outstanding claims liabilities include allowances for expenses to meet the cost of management of claims outstanding (including claims incurred but yet to be reported) as at 30 June 2017. The allowances are summarised in the following table:

Table 2 - icare Self Insurance Claims Handling Expense at 30 June 2017	Rail	GWC	EAMHC	ETMHC	BFFCF	ERWCF
Claims Handling Expense Allowance ($M)	0	0	2	1	2	3
Claims Handling Expense Allowance (%)*	0.0%	0.0%	10.6%	11.9%	17.0%	17.2%

* Claims handling expense allowance expressed as a percentage of gross outstanding claims liabilities

It is a decision for icare, acting as operator for the Funds, as to the amount adopted in the accounts.

Uncertainty

There is a limitation upon the accuracy of the estimates in this certificate in that there is an inherent uncertainty in any estimate of outstanding claim liabilities. This is due to the fact that the ultimate liability for claims is subject to the outcome of events yet to occur. These include, but are not limited to, the likelihood of injured workers lodging claims, the amount of compensation paid and the attitudes of claimants towards settlement of their claims and uncertainty surrounding the impact of the various reforms to the workers' compensation scheme design and operation which have occurred.

In our judgement, we have employed techniques and assumptions that are appropriate, and we believe the conclusions presented herein are reasonable, given the information currently available. However, it should be recognised that future claim development is likely to deviate, perhaps materially, from our estimates.

pwc

Valuation Report

Full details of data, methodology, assumptions and results are set out in our valuation reports.

Fund	Date of Report
Rail	31 August 2017
GWC	31 August 2017
EAMHC	31 August 2017
ETMHC	31 August 2017
BFFCF	31 August 2017
ERWCF	31 August 2017

Relevant Standards

Our estimates and reports were prepared, to the best of our knowledge, in compliance with Australian Accounting Standard AASB137 and the Institute of Actuaries of Australia's Professional Standard 300, which relates to estimation of outstanding claims liabilities.

Andrew Smith
FIAA
31 August 2017

statement by the chairman and chief executive officer

for the year ended 30 June 2017

New South Wales Self Insurance Corporation

Certificate under Section 41C(1B) and 41C(1C) of the *Public Finance and Audit Act 1983* and Clause 7 of the *Public Finance and Audit Regulation 2015*.

In the opinion of the Board of Directors

1. the financial statements of New South Wales Self Insurance Corporation have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2015* and the Treasurer's Directions. They have also been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.
2. the financial report for the year ended 30 June 2017 exhibit a true and fair view of the position and transactions of New South Wales Self Insurance Corporation; and
3. the directors are not aware of any circumstances as at the date of this certificate which would render any particulars included in the financial report misleading or inaccurate.

Signed on behalf of the Board of Directors

Michael Carapiet
Chairman
Insurance and Care NSW
25 September 2017

Vivek Bhatia
Chief Executive Officer
NSW Self Insurance Corporation and
Insurance and Care NSW
25 September 2017

INDEPENDENT AUDITOR'S REPORT

New South Wales Self Insurance Corporation

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of the New South Wales Self Insurance Corporation (the Corporation), which comprise the statement of financial position as at 30 June 2017, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information.

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Corporation as at 30 June 2017, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015.

My opinion should be read in conjunction with the rest of this report.

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the Corporation in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies
- precluding the Auditor-General from providing non-audit services.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

The Chief Executive's Responsibility for the Financial Statements

The Chief Executive Officer is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the PF&A Act, and for such internal control as the Chief Executive Officer determines is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Executive Officer must assess the Corporation's ability to continue as a going concern except where the Corporation will be dissolved by an Act of Parliament or otherwise cease operations. The assessment must disclose, as applicable, matters related to going concern and the appropriateness of using the going concern basis of accounting.

Auditor's Responsibility for the Audit of the Financial Statements

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf. The description forms part of my auditor's report.

My opinion does *not* provide assurance:

- that the Corporation carried out its activities effectively, efficiently and economically
- about the assumptions used in formulating the budget figures disclosed in the financial statements
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.

A Oyetunji
Director, Financial Audit Services

29 September 2017
SYDNEY

statement of comprehensive income

for the year ended 30 June 2017

	Notes	2017 $'000	2016 $'000
Premium and contribution revenue	2(a), 14	1,153,172	1,136,990
Premium and contribution revenue (a)		**1,153,172**	**1,136,990**
Claims expenses	3(a), 14	(1,551,753)	(1,295,887)
Recoveries received	2(a)	34,070	34,414
Outwards insurance expense		(45,272)	(38,568)
Acquisition costs		(34,285)	(33,040)
Unexpired risk liability expense	13(c)	(63,218)	(21,355)
Net Claims expense (b)		**(1,660,458)**	**(1,354,436)**
Net premiums/contributions less claims (a+b)		**(507,286)**	**(217,446)**
Investment revenue	2(b), 14	951,333	171,325
Grants from the Crown	3(f), 14	110,000	105,000
Other revenue		3	190
Hindsight adjustments	2(a), 14	(307,870)	(182,752)
Service fees	3(c)	(156,571)	(163,924)
Statutory levies	3(d)	(32,964)	(28,902)
Other operating expenses	3(b), 14	(10,406)	(11,247)
Grants to the Crown	3(f), 14	(195,000)	(185,000)
Net Result	**17**	**(148,761)**	**(512,756)**
Other comprehensive income		-	-
Total comprehensive income		**(148,761)**	**(512,756)**

The accompanying notes form part of these financial statements.

statement of financial position

as at 30 June 2017

	Notes	2017 $'000	2016 $'000
ASSETS			
Cash and cash equivalents	4	268,003	274,443
Investments	6	8,066,641	7,734,331
Receivables	5	289,656	308,407
Plant and equipment	8	6	7
Intangible assets	9	2,453	3,253
Deferred acquisition cost	10	-	-
Total Assets		**8,626,759**	**8,320,441**
LIABILITIES			
Payables	11	92,507	205,918
Unearned premiums	13	289,447	246,180
Outstanding claims provision	12	7,422,629	6,960,624
Unexpired risk premium	13	166,183	102,965
Total Liabilities		**7,970,766**	**7,515,687**
Net Assets		**655,993**	**804,754**
EQUITY			
Accumulated funds		655,993	804,754
Total Equity		**655,993**	**804,754**

The accompanying notes form part of these financial statements.

statement of changes in equity

for the year ended 30 June 2017

	Notes	2017 Accumulated Funds $'000	2016 Accumulated Funds $'000
Balance at beginning of year		**804,754**	**1,317,510**
Net Result for the year		(148,761)	(512,756)
Other comprehensive income		-	-
Total comprehensive income for the year		**(148,761)**	**(512,756)**
Transfers with owners in their capacity as owners		**-**	**-**
Balance at 30 June		**655,993**	**804,754**

The accompanying notes form part of these financial statements.

statement of cash flows
for the year ended 30 June 2017

	Notes	2017 $'000	2016 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Premiums received		765,189	1,047,168
Claims paid	12	(1,089,748)	(1,112,893)
Recoveries		52,145	42,228
Total Premiums/contributions less claims		**(272,414)**	**(23,497)**
Receipts			
Proceeds from sale of investment		666,896	380,000
Investment income	2(b)	603,831	471,721
Interest received		11,096	13,990
Grants from the Crown	3(f)	110,000	105,000
Other income		4	-
Total Receipts		**1,391,827**	**970,711**
Payments			
Purchases of investments		(661,527)	(571,721)
Grants to the Crown	3(f)	(195,000)	(185,000)
Service fees		(178,049)	(155,948)
Other		(91,277)	(40,953)
Personnel services fees		-	(984)
Total Payments		**(1,125,853)**	**(954,606)**
Total cash flows from operating activities		**(6,440)**	**(7,392)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of plant and equipment	8	-	-
Sale of plant and equipment	8	-	186
Purchases of intangibles/software	9	-	(1,017)
Total cash flows from investing activities		**-**	**(831)**
NET DECREASE IN CASH		**(6,440)**	**(8,223)**
Opening cash and cash equivalents		**274,443**	**282,666**
CLOSING CASH AND CASH EQUIVALENTS	**4**	**268,003**	**274,443**

The accompanying notes form part of these financial statements.

notes to the financial statements

for the year ended 30 June 2017

1. Summary of significant accounting policies

(a) Constitutions and functions of the New South Wales Self Insurance Corporation

The NSW Self Insurance Corporation (SI) operates under the *NSW Self Insurance Corporation Act 2004*, the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2015* and the Treasurer's Directions. The reporting entity is consolidated as part of the NSW Total State Sector Accounts.

It is a not-for-profit entity with responsibility for the direction, control and management of a range of funds as outlined below.

(b) Reporting entity

SI is a statutory entity that provides self-insurance coverage for most of the general government sector and a number of state owned corporations that have elected to join the scheme. SI also provides home warranty insurance outside the NSW public sector and principal arranged insurance for major capital projects undertaken by or on behalf of the State.

These financial statements have been presented on a liquidity basis following receipt of an exemption from TC17-04 by NSW Treasury that statements are presented on a current and non-current basis.

icare provides services at arms-length to SI.

The financial statements for the year ended 30 June 2017 have been authorised for issue by the Chairman of the Board and the Chief Executive on behalf of the Board of Directors on 25 September 2017.

SI has responsibility for the following Funds:

- NSW Treasury Managed Fund
- Home Building Compensation Fund (formerly the Home Warranty Insurance Fund)
- Construction Risk Insurance Fund
- Transport Accidents Compensation Fund
- Pre-Managed Fund Reserve
- Governmental Workers Compensation Account
- Residual Workers Compensation Liabilities of the Crown
- Bush Fire Fighters Compensation Fund
- Emergency and Rescue Workers Compensation Fund
- Supplementary Sporting Injuries Fund.

NSW Treasury Managed Fund (TMF)

The TMF is the Government's main self-insurance scheme that safeguards the insurable assets and exposures of:

- most general government sector agencies
- various statutory authorities and state owned corporations.

Home Building Compensation Fund (HBCF)

SI became the manager and underwriter of the HBCF from 1 July 2010 following the withdrawal of the commercial insurers in NSW. HBCF is the sole provider of insurance for home owners of residential building projects where a builder defaults on their contract. From 15 January 2015, the Home Warranty Insurance Fund was renamed as the Home Building Compensation Fund (HBCF).

Construction Risk Insurance Fund (CRIF)

Treasury Circular 16/11 'Mandatory principal arranged insurance (PAI) for all major capital works projects' requires all government agencies, other than State Owned Corporations (SOC) to undertake Principal Arranged Insurance through SI for all major capital works projects with a contract value greater than $10 million. This is to provide cost savings for the government capital works projects as well as to ensure that adequate insurance is in place with a reputable insurer and that the contractor's insurance arrangement remain current. The *NSW Self Insurance Corporation Act 2004* was amended to extend cover to non-government entities for the purpose of principal arranged insurance for major infrastructure projects where a NSW government entity is the Principal. The NSW Self Insurance Corporation Amendment Bill 2013 was assented by the Parliament on 25 June 2013. The CRIF scheme was setup for operation in 2013–14.

Transport Accidents Compensation Fund (TAC)

The TAC pays for motor transport accident claims under the common law system which applied until 30 June 1987 and TransCover system claims costs from then until 30 June 1989. The Motor Accidents Scheme replaced TransCover from 1 July 1989.

notes to the financial statements

for the year ended 30 June 2017

Pre-Managed Fund Reserve (PMF)

The PMF holds reserves previously held in the Fire Risks Account, the Fidelity Fund and the Public Liability Fund. It has been used to fund claims incurred by the NSW Government before 1 July 1989.

The PMF is not separately identified in the financial statements, but it is aggregated into the TMF due to its small size.

Governmental Workers Compensation Account (GWC)

The GWC pays the outstanding workers compensation claims liabilities as at 30 June 1989 of the:

- Consolidated Revenue Fund
- Public Hospitals
- Road and Traffic Authority Managed Fund.

From 1 July 1989, the TMF has managed workers compensation insurance for these agencies.

Residual Workers Compensation Liabilities of the Crown (SRA/RIC)

Residual workers compensation liabilities include those from the former State Rail Authority of NSW (SRA) and Rail Infrastructure Corporation (RIC).

The liabilities of the SRA were initially vested to the Crown Finance Entity pursuant to amendments to the *Transport Administration Act 1988 (TAA)* that provided for the restructuring of the Rail Industry. The liabilities of RIC were transferred to the Crown Finance Entity following section 94 and Order No. 2008-01 of the TAA which took effect from 1 October 2008. SI was appointed the claims manager for these liabilities upon Treasurer's direction.

Bush Fire Fighters Compensation Fund (BFFF)

The BFFF compensates voluntary fire fighters for personal injury and damage to fire fighters' personal property and equipment.

Emergency and Rescue Workers Compensation Fund (ERWF)

The ERWF compensates emergency service workers, rescue association workers and surf life savers for personal injury and damage to their personal equipment and vehicles.

Supplementary Sporting Injuries Fund (SSIF)

The SSIF has been established to facilitate administration of the Supplementary Sporting Injuries Scheme.

The scheme provides capital lump sum benefits for injuries that lead to a prescribed percentage of permanent loss of use or fatality to (a) children who are seriously injured while participating in organised school sport or athletic activities and (b) persons likewise injured while participating in certain programs or activity conducted or sanctioned by the Office of Sport.

(c) Management of claims and insurance underwriting business

SI uses an outsourced model for the management of claims and insurance underwriting business. The claims and underwriting management contracts were awarded to the service providers following a public tender. For the TMF, the contract commenced on 1 July 2010 for a six-year period up to 30 June 2016. The contract for HBCF commenced on 1 July 2010 and expired on 30 September 2015. Both contracts have been extended for a period of 2 years.The Board has further approved a short term extension of the HBCF contract post September 2017 until conclusion of the current tender process.

The claims and underwriting management arrangement of SI is shared between:

- GIO General Limited
- Allianz Insurance Australia
- Employers Mutual Limited
- Residential Builders Underwriting Agency
- QBE Insurance (Australia) Limited

The claims managers and insurance agents receive a management fee which includes an incentive structure for their services.

(d) Basis of preparation

SI's financial statements are general purpose financial statements which have been prepared on an accrual basis in accordance with:

- Applicable Australian Accounting Standards (which include Australian Accounting Interpretations)
- the requirements of the *Public Finance and Audit Act 1983* (PFAA) and *Public Finance and Audit Regulation 2015*.

Financial assets are measured at 'fair value through profit or loss'. Other financial statement items are prepared in accordance with the historical cost convention except where specified otherwise.

notes to the financial statements

for the year ended 30 June 2017

All amounts are rounded to the nearest one thousand dollars and are expressed in Australian currency.

(e) Statement of compliance

SI's financial statements and notes comply with Australian Accounting Standards, which include Australian Accounting Interpretations.

(f) Judgements, key assumptions and estimations

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Judgements, key assumptions and estimations management has made are disclosed in the relevant notes to the financial statements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised. Actual results may differ from these estimates.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Note 7 – Financial instruments
- Note 12 – Outstanding Claims Provision.

(g) Taxation

SI is exempt from income tax under Division 50 of the *Income Tax Assessment Act 1997*.

Income, expenses, and assets are recognised net of the amount of GST, except that:

- the amount of GST incurred by SI as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of an item of expense or as part of the cost of acquisition of an asset; and
- receivables and payables are stated with the amount of GST included.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are receivable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

(h) Comparative information

Except when an Australian Accounting Standard permits or requires otherwise, comparative information is disclosed in respect of the previous reporting period for all amounts reported in the financial statements.

(i) Changes in accounting policy, including new or revised Australian Accounting Standards

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the reporting year ending 30 June 2017. The following new Standards will not have any direct impact on the financial performance or position of the schemes.

- AASB 9 *Financial Instruments*
- AASB 15, AASB 2014-5, AASB 2015-8 and AASB 2016-3 regarding Revenue from Contracts with Customers
- AASB 16 regarding leases
- AASB 1058 *Income of Not-for-profit Entities*
- AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107
- AASB 2016-6 Amendments to Australian Accounting Standards – Applying AASB 9 with AASB 4 Insurance Contracts
- AASB 2016-7 Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities
- AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities
- AASB 2017-1 Amendments to Australian Accounting Standards – Transfer of Investment Property, Annual Improvements 2014–2016 Cycle and Other Amendments
- AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014–2016 Cycle.

The proposed amendments to AASB 4 Insurance Contracts specify the financial reporting for insurance contracts. The changes will not impact the financial statements based on the current proposal. However, SI will conduct an impact assessment of implementing the Standard before 1 January 2018.

The remaining standards relate to disclosure requirements and will have no direct impact on SI's financial results.

notes to the financial statements

for the year ended 30 June 2017

2. Revenue

(a) Income recognition

Income is measured at the fair value of the consideration received or receivable.

(i) Premium revenue

Premiums are recognised as income on a straight line basis over the period of the insured risk.
Premiums are exclusive of taxes and duties levied.

TMF revenue is received from member agencies for 12 months insurance cover from 1 July each year.

HBCF Premium provides insurance cover for periods up to 7 years commencing from the date of the insurance contract. The proportion of premium received not earned at reporting date is recognised as an unearned premium liability on the Statement of Financial Position.

CRIF Premium is received from agencies for principal arranged insurance cover for government capital projects estimated to cost $10 million or more and is recognised from the date of the insurance contract over the period of the contract.

(ii) Hindsight adjustments

TMF uses an incentive-based scheme to encourage agencies to improve their claims performance. Claims costs and premium for agencies are established at the start of a fund year. After sufficient time has passed for claims development, the scheme applies a hindsight adjustment, calculated at 3 years (Interim) and 5 years (Final), based on actual claims experience. Agencies receive or pay the difference between the annual premium and hindsight adjustment.

Hindsight adjustments are recognised as revenue or expense when they can be reliably measured.

Hindsight adjustments for 2016–17 include workers compensation final hindsight adjustments for 2011–12 and interim hindsight adjustments for 2013–14. Hindsight adjustments for 2015-16 include workers compensation final hindsight adjustments for 2010–11 and interim hindsight adjustments for 2012–13.

(iii) Insurance and Other Recoveries Revenue

Insurance recoveries are recognised as revenue when it is virtually certain the recovery will be made.
Other recoveries include recoveries of claims paid under:

- sharing agreements
- third party recoveries
- salvage and subrogation.

Movement in outstanding recoveries represents the increase/(decrease) in the actuarially assessed level of insurance and other recoveries receivable at reporting date.

(b) Investment revenue

	2017 $'000	2016 $'000
Return on investment		
Revenue from financial assets held at fair value	603,831	471,721
Gains/(losses) from financial assets held at fair value	337,679	(314,385)
Interest	9,823	13,990
	951,333	**171,325**

Interest revenue is recognised on an accrual basis. Investment revenue includes interest income.

Realised and unrealised gains or losses are recognised on a change in fair value basis.

notes to the financial statements

for the year ended 30 June 2017

3. Expenses

(i) Outwards insurance expense

Premiums ceded to insurers are recognised as an expense at the earlier of when they are paid or become payable.

(a) Claim expenses

	2017 $'000	2016 $'000
New claims incurred	1,089,746	923,651
Adjustments to existing outstanding claims	160,244	82,305
Unwinding of discounts on provision for outstanding claims	301,763	289,931
Claims expenses	**1,551,753**	**1,295,887**

Claims expenses are recognised as expenses when incurred. Included in claims expenses are actuarially determined revisions to the outstanding claims provisions.

	2017 $'000	2016 $'000
Unwinding of discounts on provision for outstanding claims see below:		
NSW Treasury Managed Fund (TMF)	275,863	267,900
Governmental Workers Compensation Account (GWC)	3,592	3,732
Home Building Compensation Fund (HBCF)	1,944	182
Construction Risk Insurance Fund (CRIF)	51	-
Transport Accidents Compensation Fund (TAC)	14,701	13,481
Residual Workers Compensation Liabilities of the Crown (SRA/RIC)	3,957	4,025
Bush Fire Fighters Compensation Fund (BFFF)	755	296
Emergency and Rescue Workers Compensation Fund (ERWF)	896	303
Supplementary Sporting Injuries Fund (SSIF)	4	12
Unwinding of discounts on provision for outstanding claims	**301,763**	**289,931**

notes to the financial statements

for the year ended 30 June 2017

(b) Other operating expenses

	2017 $'000	2016 $'000
Scheme Agents remuneration	-	5,925
Software licensing	4,663	-
Risk consulting fees	-	9
Actuarial expenses	-	1,015
Depreciation and amortisation	798	792
Storage costs	-	71
Audit fees- other	482	67
Audit fees - audit of financial statements	253	-
Consultants	622	84
Contractors	2,419	1,766
Insurer administration fees	-	85
Operating lease rental expenses	-	87
Legal fees	35	-
Other expenses	1,134	1,346
	10,406	**11,247**

As explained in Note 3 (c) the majority of SI's costs are incurred by icare and are shown in the Service fee charged by icare for this service. As icare was only created on 1 September 2015 the prior period costs include 2 months of expenditure incurred by SI prior to the commencement of icare providing those services.

(c) Service fees

Service fees to icare	**156,571**	**163,924**

In accordance with the *State Insurance and Care Governance Act 2015* from 1 September 2015, SI receives services from icare. Under the arrangement some of SI's costs are incurred by icare and recovered at cost from SI. These services include the provision of staff, claims handling facilities, general business expenses and governance services.

The 2015–16 Service Fee included an amount of $220,000 for the audit of SI Corp's financial statements by the Audit Office of NSW.

Agent's remuneration of $21m paid by icare has been treated as an acquisition cost rather than as a Service fee expense.

SI's key management personnel are the Board of Directors of icare, the Chief Executive Officer of icare and their direct reports. All transactions with these key management personnel are at arms length and are included in the service fee paid to icare for those personnel remunerated by icare.

notes to the financial statements

for the year ended 30 June 2017

(d) Statutory levies

Former WorkCover Authority of NSW	-	16,981
State Insurance Regulatory Authority	20,710	-
Dust Diseases Authority	12,254	11,921
	32,964	**28,902**

(e) Net claims incurred

An analysis of the net claims incurred for the TMF (SI's main scheme) showing separately the amount relating to risks borne in the current period and the amount relating to a reassessment of risks borne in all previous periods is presented below.

(i) TMF Workers Compensation

	12 Months to 30 June 2017			12 Months to 30 June 2016		
	Current year $'000	Prior Years $'000	Total $'000	Current year $'000	Prior Years $'000	Total $'000
Gross Claims Expense[3]						
Gross claims incurred – Undiscounted	827,904	200,073	1,027,977	737,621	71,979	809,600
Discount movement	(248,296)	105,737	(142,559)	(204,652)	59,040	(145,612)
	579,608	**305,810**	**885,418**	**532,970**	**131,018**	**663,988**
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries revenue – undiscounted	(11,062)	27,318	16,256	(14,403)	3,989	(10,414)
Discount movement	2,171	(12,953)	(10,782)	3,194	(3,637)	(444)
	(8,891)	**14,365**	**5,474**	**(11,210)**	**352**	**(10,858)**
Total Net Claims Incurred	**570,717**	**320,175**	**890,892**	**521,760**	**131,370**	**653,130**

3 Includes an estimate for claims handling expenses.

Increase in prior years amount is predominately due to the impact of Section 39 (refer Note 12).

notes to the financial statements

for the year ended 30 June 2017

(ii) TMF General Lines[1,2]

	12 Months to 30 June 2017			12 Months to 30 June 2016		
	Current year $'000	Prior Years $'000	Total $'000	Current year $'000	Prior Years $'000	Total $'000
Gross Claims Expense[3]						
Gross claims incurred – Undiscounted	711,136	(170,732)	540,404	670,123	(422,393)	247,730
Discount movement	(155,016)	159,021	4,005	(153,139)	387,859	234,720
	556,120	**(11,711)**	**544,409**	**516,984**	**(34,534)**	**482,450**
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries revenue – undiscounted	(37,074)	(490)	(37,564)	(40,007)	21,468	(18,538)
Discount movement	7009	(9,042)	(2,033)	7,632	(11,646)	(4,014)
	(30,065)	**(9,532)**	**(39,597)**	**(32,375)**	**9,823**	**(22,552)**
Total Net Claims Incurred	**526,055**	**(21,243)**	**504,812**	**484,609**	**(24,712)**	**459,898**

1 Movement in the undiscounted and discounted gross claims represents the increase/(decrease) in the outstanding claims provision at the reporting date.

2 Movement in the undiscounted and discounted reinsurance and other recoveries represents the increase/(decrease) in the insurance and other recoveries receivable at the reporting date.

3 Includes an estimate for claims handling expenses.

(f) Grant from/(to) the Crown

	2017 $'000	2016 $'000
Grant to the Crown Entity [expense]	(195,000)	(185,000)
Grant from the Crown Entity [revenue]	110,000	105,000
Net grant revenue	**(85,000)**	**(80,000)**

The annual funding adequacy assessment as at 31 December 2016 based on assets at 112.5% of liabilities (31 December 2015: 115%) has been approved and the funds transferred to the Consolidated Fund.

Pursuant to the Net Assets Holding Level Policy (NAHLP), SI makes payments to or receives funding from the Crown Entity to maintain the required level of net assets.

notes to the financial statements

for the year ended 30 June 2017

The policy, introduced in March 2006 and revised in May 2013, requires SI to maintain financial assets for each insurance scheme (except the HBCF, CRIF, BFFF, ERWF and SSIF) at between 105% and 115% of liabilities. The adequacy of the net assets level is reviewed at least annually based on the financial results as at 31 December with an option of more frequent reviews to consider any emerging issues and trends in outstanding claims liabilities and investments. The assessment takes into consideration:

- the probability of adequacy of the net central estimate
- probability of poor investment returns and/or deterioration in claims experience
- impact of a major claim, either not covered by the TMF reinsurance protection or exhausting the TMF reinsured retention level
- absence of premium income and reinsurance cover for residual schemes.

Net assets in surplus of the required holding level are paid to Crown Entity and net assets in deficit are covered through payments from the Crown Entity.

The payments are recognised as expenses at the earlier of when they are paid or payable. Grants are recognised as revenues at the earlier of when they are received or due to be received.

4. Cash and cash equivalents

	2017 $'000	2016 $'000
Cash at bank	268,003	274,443

For the purposes of the statement of cash flows, cash and cash equivalents include cash at bank and short term money market investments held at TCorp.

Cash and cash equivalent assets recognised in the statement of financial position is reconciled at the end of the financial year to the statement of cash flows as follows:

	2017 $'000	2016 $'000
Cash and cash equivalents (per statement of financial position)	268,003	274,443
Closing cash and cash equivalents (per statement of cash flows)	268,003	274,443

Refer to Note 7 for details regarding credit risk, liquidity risk and market risk arising from financial instruments.

notes to the financial statements

for the year ended 30 June 2017

Reconciliation of net cash flows from operating activities to the Net Result

	2017 $'000	2016 $'000
Net cash flows from operating activities	**(6,440)**	**(7,392)**
Adjustments for:		
Depreciation and amortisation	(798)	(792)
(Decrease)/Increase in investments	332,310	(122,664)
(Increase) in outstanding claims	(462,005)	(218,688)
Increase in unearned premiums	(43,268)	(55,143)
Decrease/(Increase) in payables	113,410	(41,241)
(Increase) in unexpired risk	(63,218)	-
(Decrease) in receivables	(18,752)	(66,831)
Decrease in other assets	-	(4)
Net Result	**(148,761)**	**(512,756)**

5. Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Short-term receivables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

The collection of receivables is reviewed on an ongoing basis. An allowance for impairment is established when there is objective evidence that not all amounts due will be collectable. Bad debts are written off when there is objective evidence that the chance of collecting an amount is unlikely.

	2017 $'000	2016 $'000
Premium and contribution receivable	61,299	49,457
Insurance and other recoveries receivable	212,996	231,072
Receivable from the Crown	3,233	4,506
GST receivable	8,163	18,830
Prepayments	3,965	4,542
	289,656	**308,407**

Other receivables are non-interest bearing and are generally on 30 day terms.

Insurance and other recoveries receivables are discounted to present value.

SI purchases reinsurance for losses above their predetermined retention levels of financial losses associated with large claims or incidents. The retention level is set by management and reviewed annually as part of the renewal process. The current retentions are determined based on price, availability of cover, and risk tolerances. When the claims cost exceeds the excess level, the cost is recoverable from SI's reinsurers and recognised as insurance and other recoveries receivable.

notes to the financial statements

for the year ended 30 June 2017

The amount of insurance and other recoveries receivable is equal to the estimated gross incurred cost less the retention limit and insurance recoveries received to date. The receivable is recognised when recovery is virtually certain to take place when the corresponding obligation is settled. The measurement of these receivables is affected by factors such as normal inflation and the discount rate used for discounting of future expected receipts. The rates applied are consistent with those used in the valuation of provisions for outstanding claims (see Note 12).

	2017 $'000	2016 $'000
Present value of insurance and other recoveries		
Expected future recoveries (undiscounted)	275,606	307,857
Discount to present value	(62,610)	(76,785)
	212,996	**231,072**

6. Investments

	2017 $'000	2016 $'000
TCorp Funds	8,066,641	7,734,331
	8,066,641	**7,734,331**

Investments in New South Wales Treasury Corporation's (TCorp) Funds and the managed asset portfolio are designated as fair value through profit or loss. The investments within the Funds are unit holdings. The value of the Funds is based on SI's share of the value of the underlying assets of the Fund, based on the market value. All of the Funds are valued at redemption price.

The fair value quoted market price for similar instruments and the underlying value are provided by Portfolio manager, TCorp.

The movement in the fair value of the Funds incorporates distributions received as well as realised and unrealised movements in fair value and is reported as investment revenue in the statement of comprehensive income.

Purchases or sales of investments are recognised on the trade date i.e. the date the entity commits itself to purchase or sell the asset.

Refer to Note 7 for further information regarding fair value measurement, credit risk, liquidity risk and market risk arising from financial assets at fair value.

notes to the financial statements

for the year ended 30 June 2017

7. Financial and insurance risk management

I's principal financial instruments are outlined below. These financial instruments arise directly from SI's operations or are required to finance those operations. SI does not enter into financial instruments, including derivative financial instruments, for speculative purposes.

SI's main risks arising from financial instruments are outlined below, together with SI's objectives, policies and processes for measuring and managing risk. Further quantitative and qualitative disclosures are included through these financial statements.

Following the *State Insurance and Care Governance Act 2015* overall responsibility for the establishment and oversight of risk management, risk reviews, policy setting and for managing each of these risks moved to NSW Treasury. The risk management policies in place prior to the Act remain in place with the purpose of establishing frameworks and processes that identify and analyse the risks faced by SI investment funds, set risk limits and controls, and monitor risks. The risk monitoring responsibility resides with NSW Treasury Corporation (TCorp) and they are responsible for reporting on these to NSW Treasury.

SICorp's Strategic Asset Allocation into the TCorp's managed funds is recommended to Treasury by TCorp and approved by Treasury. SICorp has line of sight of investment performance.

The main purpose of these financial instruments is to derive income and investment gains which are used to fund insurance liabilities.

Financial instrument categories

	Note	Category	2017 $'000	2016 $'000
Financial assets				
Cash and cash equivalents	4	N/A	268,003	274,443
Investments	6	At fair value through profit and loss (designated as such upon initial recognition)	8,066,641	7,734,331
Receivables[1]	5	Receivables measured at amortised cost	61,299	49,457
Financial liabilities				
Payables[2]	11	Payables measured at amortised cost	90,943	204,288

1 Excludes insurance and recoveries receivable, statutory receivables and prepayments (i.e. not within scope of AASB 7)

2 Excludes outstanding claims provision, unexpired risk liability, statutory payables and unearned revenue (i.e. not within scope of AASB 7)

Financial risk management

The activities of SI's unit trusts expose it to a variety of financial risks. These include:

- Market risks
    - i) interest rate risk
    - ii) currency risk
    - iii) other price risk
- Credit risk
- Liquidity risk.

SICorp manages insurance risks with all investment and financial related risks managed by NSW Treasury Corporation (TCorp) and NSW Treasury (Treasury). SICorp has line of sight of the investment and financial performance. A Memorandum of Understanding exists between Treasury and TCorp to effectively monitor, manage and report on these risks between the two parties.

notes to the financial statements

for the year ended 30 June 2017

Insurance Risk Management

SI is affected by insurance risk, market risk, credit risk, and liquidity risks. Overall risk management within icare forms a part of operations and line responsibilities. The Risk, Compliance and Audit Committee (RCAC) has oversight of risk management and reports to the icare Board. Internal Audit helps identify, monitor and evaluate risks and gives assurance to the RCAC on higher risk activities.

The risk and compliance management framework to identify and mitigate risks is outlined below:

- Use and maintenance of information systems to provide up-to-date and reliable data on the risks to which the entity is exposed
- Independent actuarial assessment, using data from the information systems and robust actuarial modelling, are used to assess the adequacy of pricing and premiums and to monitor claims patterns based on past experience and emerging trends
- Detailed risk and compliance registers that identify key risks and controls, residual risk exposures, and risk treatment and owner. Compliance attestations are performed on a quarterly basis and material exceptions are reported to the icare Board
- Detailed underwriting procedures are in place and strictly followed for accepting risks and regular reviews and audits are performed on the underwriting function of brokers and insurance agents
- Premiums received by the largest fund (TMF) are paid by member agencies through funding from the NSW Treasury
- Most premiums are paid within payment terms. The outstanding debtors are managed by outsourced service providers who actively monitor and review the portfolios
- Under the NALHP SI maintains the required level of net assets for each scheme (except HBCF, CRIF, BFFF, ERWF and SSIF) through fund transfers to/from the Consolidated Fund.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. SI's exposures to market risk are primarily through price risks associated with the movement in the unit price of the Funds.

The effects on SI's operating result due to reasonably possible changes in risk variables are outlined in the information below, for interest rate risk and other price risk. A reasonably possible change in each risk variable has been determined after taking into account the economic environment in which SI operates and the time frame for the assessment (i.e. until the end of the next annual reporting period). The sensitivity analysis is based on risk exposures in existence at the reporting date. The analysis was performed on the same basis as 2016. The analysis assumes that all other variables remain constant.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Exposure to interest rate risk arises primarily through SI's cash deposits held at other financial institutions. TCorp manages the portfolio to agreed benchmarks to minimise the fair value interest rate risk.

The following table provides the sensitivity analysis of interest rate risk affecting applicable financial assets on the operating result and equity of SI. A reasonably possible change of +/- 0.5% is used, consistent with current trends in interest rates. The basis will be reviewed annually and amended where there is a structural change in the level of interest rate volatility.

	Carrying amount $'000	Decrease in Profit -0.5% $'000	Decrease in Equity -0.5% $'000	Increase in Profit 0.5% $'000	Increase in Equity 0.5% $'000
2017					
Cash and cash equivalents	268,003	(1,340)	-	1,340	
2016					
Cash and cash equivalents	274,443	(1,372)	-	1,372	-

notes to the financial statements

for the year ended 30 June 2017

(ii) Currency risk

SI has some foreign currency risk exposure from its investments in the TCorp Funds. The investments in the emerging market, indexed and actively managed international share funds are denominated in currencies other than Australian Dollars. SI also has an exposure to Global Listed Real Estate Securities and Multi-Asset Class strategies which are typically hedged with a 100 per cent target level asset. The agreement between SI and TCorp requires the manager to effectively review the currency exposure when it arises.

TCorp considers currency risk within the context of its overall investment strategy.

As at 30 June 2017 SI has no transactional or structural currency exposures (2016: Nil).

(iii) Other price risk

Exposure to "other price risk" primarily arises through the investment in the TCorp Funds which are held for strategic rather than trading purposes. SI has no direct equity investments. SI holds units in the following Funds.

Facility	Investment sectors	Investment horizon	2017 $'000	2016 $'000
Treasury Managed Fund Investment Portfolio	Cash, money market instruments, Australian Bonds, Listed and Unlisted Property, Australian, International and Emerging Markets shares, and Unlisted Infrastructure	Long term	7,481,841	7,239,088
Long term growth Fund	Cash, money market instruments, Australian Bonds, Listed Property, Australian, International and Emerging Markets shares, Multi-assets	7 years and over	584,800	495,243

The unit price of each Fund is equal to the total fair value of the net assets held by the Fund divided by the total number of units on issue for the Fund. Unit prices are calculated and published daily. The unit prices used to value the balances on the monthly statements are redemption prices.

TCorp acts as trustee for each of the above Funds and is required to act in the best interest of the unit holders and to administer the Funds in accordance with the trust deeds. TCorp has appointed specialist investment managers to manage the performance and risks of each Fund in accordance with a mandate agreed by the parties. A significant portion of the administration of the facilities is outsourced to an external custodian. TCorp has also leveraged off internal expertise to manage certain fixed income assets for the Funds.

Investments in the Funds limit SI's exposure to risk as this allows diversification across a pool of funds with different investment horizons.

The Funds are designated at fair value through profit or loss and therefore any change in unit price impacts directly on profit (rather than equity). TCorp provides sensitivity analysis information for each of the Funds using historically based volatility information collected over a ten year period, quoted at two standard deviations (i.e. 95% probability). A reasonably possible change is based on the percentage change in unit price multiplied by the redemption price as at 30 June each year for each Fund.

	Change in unit price		Impact on surplus/(deficit)	
Investment facility	2017 %	2016 %	2017 $'000	2016 $'000
Treasury Managed Fund Investment Portfolio	+/- 18.0	+/- 18.0	+/-$1,346,731	+/- $1,303,036
Long Term Growth Fund	+/- 16.0	+/- 16.0	+/-$93,568	+/- $79,239

SI has no exposure to commodity price risk.

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for the year ended 30 June 2017

Credit risk

Credit risk arises from the financial assets of SI, which comprise cash and cash equivalents, receivables and financial assets at fair value. SI's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments at balance date.

Cash and cash equivalents

Cash comprises bank balances with financial institutions. Interest is earned on daily bank balances.

Receivables – premium and contributions

All premium and contributions receivable are recognised as amounts receivable at the reporting date.
The collection of premium and contributions receivable is reviewed on an ongoing basis. Procedures as established in the Treasurer's Directions are followed to recover outstanding amounts, including letters of demand. Debts which are known to be uncollectible are written off. An allowance for impairment is raised when there is objective evidence that the entity will not be able to collect all amounts due. No interest is earned on premium and contributions receivable. The average credit period on sales, unless otherwise agreed, is 30 days from invoice date.

SI does not receive any collateral for receivables.

The receivables that are past due or considered impaired are included in the table below.

	Total $'000	Past due but not impaired $'000			Considered impaired $'000
		< 3 months	3–6 months	> 6 months	
2017					
Receivables	94	-	2	92	-
2016					
Receivables	953	704	-	249	-

The ageing analysis excludes insurance and other recoveries receivables, statutory receivables and prepayments, as these are not within the scope of AASB 7.

Financial assets at fair value

Financial assets at fair value include investments in TCorp's Funds and the managed assets portfolio. The investments within the Funds are unit holdings, and as such, do not give rise to credit risk. Credit risk within the Funds is managed by ensuring there is a wide spread of risks. TCorp, as trustee, contracts with specialist investment managers and requires the mandates to include a series of controls over the concentration and credit quality of assets.

notes to the financial statements

for the year ended 30 June 2017

Liquidity risk

The liquidity of SI's investments is assured by the liquid nature of the fixed interest investments within the TCorp Funds. All Fund share and property investments are required to be listed on a recognised stock exchange with the exception of the unlisted property and unlisted infrastructure investments which only account for 6 per cent and 10 per cent of the Treasury Managed Fund Investment Portfolio as at the reporting date.

In accordance with the MoU, TCorp is required to take market turnover and liquidity risk into account at the time of constructing SI's investment asset allocation.

During the current and prior years, there were no defaults on payables. No assets have been pledged as collateral. SI's exposure to liquidity risk is deemed insignificant based on prior periods' data and the current assessment of risk.

The payables are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in Treasury Circular 11/12. If trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice or a statement is received.

The table below summarises the maturity profile of SI's financial liabilities.

	Weighted average effective interest rate %	Nominal amount $'000	Interest rate exposure			Maturity dates		
			Fixed Interest rate $'000	Variable interest rate $'000	Non-interest bearing $'000	< 1 Year $'000	1–5 Years $'000	> 5 Years $'000
2017								
Payables	-	90,943	-	-	90,943	90,943	-	-
2016								
Payables	-	204,288	-	-	204,288	204,288	-	-

Fair value recognised in the Statement of Financial Position

SI uses the following hierarchy for disclosing the fair value of financial instruments by valuation technique:

- Level 1 – derived from quoted prices in active markets for identical assets/liabilities that the entity can access at measurement date
- Level 2 – derived from inputs other than quoted prices that are observable directly or indirectly
- Level 3 – derived from valuation techniques that include inputs for the asset/liability not based on observable market data (unobservable inputs).

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2017				
Financial assets at fair value				
TCorp Funds	-	8,066,641	-	8,066,641
	-	**8,066,641**	**-**	**8,066,641**
2016				
Financial assets at fair value				
TCorp Funds	-	7,734,331	-	7,734,331
	-	**7,734,331**	**-**	**7,734,331**

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for the year ended 30 June 2017

There were no transfers between the levels during the period ended 30 June 2017 (2016: Nil). The value of the Funds is based on SI's share of the value of the underlying assets of the facility, based on the market value. All of the facilities are valued using redemption pricing.

8. Plant and equipment

	2017 $'000	2016 $'000
Gross carrying amount	13	13
Accumulated depreciation and impairment	(7)	(6)
Net carrying amount at end of year	**6**	**7**

Reconciliation

A reconciliation of the carrying amount of plant and equipment at the beginning and end of the reporting periods is set out below.

	2017 $'000	2016 $'000
Year ended 30 June		
Net carrying amount at start of year	7	248
Additions	-	-
Disposals	-	(186)
Depreciation expense	(1)	(55)
Net carrying amount at end of year	**6**	**7**

Plant and equipment are recorded at cost on acquisition.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire the asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised. Physical non-current assets costing more than $5000 individually are capitalised.

Physical non-current assets are valued in accordance with the "Valuation of Physical Non-Current Assets at Fair Value" Policy and Guidelines Paper (TPP 14-01). This policy adopts fair value in accordance with AASB 116 *Property, Plant and Equipment* and AASB 13 *Fair Value Measurement*.

No revaluation is undertaken on these assets as the difference between fair value in continued use and carrying value is immaterial.

Depreciation is provided for on a straight line basis for all depreciable assets so as to write off the depreciable amount of each asset as it is consumed over its useful life. The depreciation rates used for the financial year 2016–17 for each class of assets are based on the following useful lives:

- office equipment: 7 years
- furniture and fittings: 5 to 10 years.

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for the year ended 30 June 2017

9. Intangible assets

	2017 $'000	2016 $'000
Gross carrying amount	8,881	8,884
Accumulated amortisation and impairment	(6,428)	(5,631)
Net carrying amount at end of year	**2,453**	**3,253**

Reconciliation

A reconciliation of the carrying amount of intangible assets at the beginning and end of the reporting periods is set out below.

	2017 $'000	2016 $'000
Year ended 30 June		
Net carrying amount at start of year	3,253	2,973
Additions	-	1,017
Disposals	(3)	-
Amortisation expense	(797)	(737)
Net carrying amount at end of year	**2,453**	**3,253**

Intangible assets include capitalised expenditures for system development costs and computer software.

Following initial recognition at cost, intangible assets are carried at cost less any accumulated amortisation and impairment which is the fair value in the absence of an active market. Computer software costs are amortised on a straight line basis over 5 years.

10. Assets – Deferred acquisition cost

Costs directly attributable to the acquisition of the HBCF premium revenue are deferred by recognising them as an asset in the Statement of Financial Position when they can be reliably measured. Deferred acquisition costs are amortised systematically over the life of the insurance policy in line with the expected pattern of the incidence of risk. This corresponds to the earning pattern of premium revenue.

	2017 $'000	2016 $'000
Deferred acquisition costs[1]	-	-
Deferred restoration costs	-	-
Other	-	-
	-	**-**

1 Movements of deferred acquisition cost of the HBCF

notes to the financial statements

for the year ended 30 June 2017

	2017 $'000	2016 $'000
Acquisition costs incurred during the year	34,285	33,040
Acquisition costs amortised during the year	-	(2,105)
Net deficiency write down[1]	(34,285)	(30,935)
At year ended 30 June	**-**	**-**

1 Refer to Note 13(c) for details

11. Payables

Payables are recognised initially at fair value, usually based on the transaction cost or face value. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

These amounts represent liabilities for goods and services provided to SI and other amounts. Payables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

The payables are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in Treasury Circular 11/12.

	2017 $'000	2016 $'000
Accrued expenses & other creditors – operational	13,800	10,676
Hindsight premium payments	-	111,540
Service fee	68,801	69,276
Commission and transition fee	-	5,956
Statutory fees	1,564	1,630
Other	8,342	6,840
	92,507	**205,918**

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for the year ended 30 June 2017

12. Outstanding claims provisions

Provisions are recognised when SI has a present obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

(a) Outstanding claims provision

The provision for outstanding claims is actuarially determined in consultation with the claims managers for TMF, TAC, GWC, SRA/RIC, CRIF, BFFF, ERWF and SSIF. It is measured as the estimate of the expected future payments required to settle the present obligation at the reporting date, including the expenses associated with the settlement.

The expected future payments are estimated on the basis of the ultimate cost of the settling of claims, which is affected by factors arising during the period to settlement such as normal inflation and "superimposed inflation". Superimposed inflation refers to factors such as trends in court awards, for example increases in the level and period of compensation for injury or above inflation increases in the cost of obtaining medical services.

The expected future payments (excluding CRIF and HBCF) are then discounted to a present value at the reporting date using discount rates based on the estimated long term fair value of the ten year NSW Government bond yields as recommended by TCorp.

The liability for outstanding claims includes:

- claims incurred and reported but not yet paid
- claims incurred but not yet reported (IBNR)
- claims incurred but not enough reported (IBNER)
- expected claims handling costs.

For HBCF and CRIF, the outstanding claims liability estimate includes a risk margin of 15 and 25 per cent respectively (2016: 15 and 25 per cent) to cover the inherent uncertainty in the net central estimate. The risk margins have been set at a level that results in an overall probability of sufficiency in the outstanding claims liability of 75 per cent (2016: 75 per cent).

For HBCF, the provision for outstanding claims is actuarially determined in conjunction with information supplied by the Insurance Agents for the NSW Home Building Compensation Fund and includes a factor for superimposed inflation and an additional risk margin to allow for the inherent uncertainty in the central estimate.

The outstanding claims liability for the Pre-Managed Fund Reserve (part of the TMF) is determined from estimates provided by the member agencies based on claims incurred and reported as at the reporting date. The list of claims estimates provided by the agencies is vetted by the TMF's manager and approved by SI.

No risk margin is included in the outstanding claims liability for the TMF. The overall probability of sufficiency of the liability was 53 per cent at 30 June 2017 (2016: 53 per cent).

For CRIF, the provision for outstanding claims is actuarially determined in conjunction with various sources of industry benchmark data and assumptions given the very limited claims experience to date and includes an additional risk margin to allow for the inherent uncertainty in the central estimate.

Where there is a material effect due to the time value of money, the provisions are discounted. The increase in the provision resulting from the passage of time is recognised in the finance costs.

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for the year ended 30 June 2017

The weighted average expected term to settlement from the balance date of the outstanding claims is estimated to be 5 year (2016: 22 years), 9.4 years for SRA/RIC (2016: 9 years), 7.1 years for BFF (2016: 6.2 years), 9.4 years for ERWF (2016: 7.3 years) $0.9 million (2016: $0.4 million). No risk margin was included in the TMF (2016: nil).

	TMF $'000	CRIF $'000	GWC $'000	TAC $'000
Net carrying amount at start of year	6,315,430	2,925	78,607	309,487
Payments (All Ays, excl CHE)	(1,013,256)	(378)	(5,224)	(7,009)
Unwinding of discounts	275,863	51	3,592	14,701
Actuarial (gain)/loss	106,249	989	2,193	(129)
Additions (liability incl. CHE)	1,002,527	2,860	-	-
Additions (payments incl. CHE)	136,063	7	-	-
Expected CHE (All Ay's)	(63,187)	(19)	-	(350)
Portfolio transfer in	-	-	-	-
Closing balance	**6,759,689**	**6,435**	**79,168**	**316,700**

AY = Accident year
CHE= Claims handling expenses

The average inflation and discount rates below were used in measuring the outstanding claims liability:

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s for TMF (2016: 5 years), 2.06 years for the CRIF (2016: 2.12 years), 12.1 years for GWC (2016: 11.4 years), 23 years for TAC) and 2.1 years for HBCF (2016: 2.3 years). The risk margin for the HBCF was $19.0 million (2016: $17.5 million) and for the CRIF

SRA/RIC $'000	HBCF $'000	BFFF $'000	ERWF $'000	SSIF $'000	2017 Total $'000	2016 Total $'000
88,863	134,481	13,892	16,628	311	**6,960,624**	6,741,936
(12,028)	(42,846)	(3,956)	(5,049)	-	**(1,089,746)**	(1,112,893)
3,957	1,944	755	896	4	**301,763**	289,931
(234)	(11,465)	(287)	1,771	(119)	**98,968**	82,306
-	55,476	2,390	3,073	85	**1,066,411**	923,665
-	10,181	1,837	1,914	-	**150,002**	-
-	-	(752)	(1,085)	-	**(65,393)**	-
-	-	-	-	-	**0**	35,679
80,558	**147,771**	**13,879**	**18,148**	**281**	**7,422,629**	**6,960,624**

notes to the financial statements

for the year ended 30 June 2017

	2017 %			2016 %		
	Inflation rate	Discount rate	Superimposed inflation	Inflation rate	Discount rate	Superimposed inflation
Next 12 months						
TMF	2.5	4.5	0–4.0	2.5	4.75	2.0–4.0
CRIF	1.9–2.0	1.6	-	1.75	1.7	-
GWC	2.5–2.7	4.5	0-1.5	2.5–3.0	4.75	0-1.5
TAC	2.15	4.5	3.5	3.0	4.75	3.5
SRA/RIC	2.5–2.7	4.5	0-1.7	2.5-3.0	4.75	0-1.7
HBCF	2.5	1.6	2.5	2.7	1.6	2.3
ERWF	2.8	4.5	-	2.75	4.75	-
BFF	2.8	4.5	-	2.5	4.75	-
SSIF						
Later than 12 months						
TMF	2.5–3.5	4.5	0–4.0	2.5–4.0	4.75	2.0–4.0
CRIF	2.1–2.4	1.9–4.6	-	2.25–2.5	1.5	-
GWC	3.1–4.0	4.5	0–1.5	2.8–4.0	4.75	0–1.5
TAC	3.2–4.0	4.5	3.5	3.25–4.0	4.75	3.5
SRA/RIC	3.1–4.0	4.5	0–1.7	2.75–4.0	4.75	0–1.7
HBCF	2.9–3.6	1.8–4.3	1.4–2.1	3.0–3.6	1.5–3.4	1.4–2.0
ERWF	3.1–3.5	4.5	-	2.75–3.5	4.75	-
BFF	3.1–3.5	4.5	-	2.75–3.5	4.75	-
SSIF	-	2.2	-	-	1.6	-

Sensitivity Analysis

The outstanding claims liabilities are central estimates derived from actuarial assumptions regarding future experience. Sensitivity analysis can be used to measure the change in the outstanding claims liability estimate that would result from a change in the assumptions. TMF is SI's main insurance scheme which represents 91% (2016: 92%) of the outstanding claims. A sensitivity analysis of the key assumption changes for the TMF and their impact on the net central estimate is shown in the following tables.

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(i) TMF Non-Workers Compensation (Including Liability – Health)

Variable	Movement in variable %	Net Central Estimate $'000	Impact of Change $'000	Impact %
Net Central Estimate[1]		2,582,087		
Risk free rate		2,831,215	249,128	9.6
Discount rate	+1	2,458,529	(123,558)	(4.8)
	-1	2,706,208	124,121	4.8
Inflation rate	+1	2,722,212	140,126	5.4
	-1	2,461,074	(121,013)	(4.7)
Superimposed inflation rate	+1	2,696,821	114,734	4.4
	-1	2,476,658	(105,429)	(4.1)

1 The net central estimate is inflated and discounted, net of insurance and other recoveries and includes an allowance for claims handling expenses.

(ii) Liability (Health)

Variable	Movement in variable %	Net Central Estimate $'000	Impact of Change $'000	Impact %
Net Central Estimate		1,846,815		
Risk free rate		2,030,146	183,331	9.9
Discount rate	+1	1,756,223	(90,592)	(4.9)
	-1	1,937,578	90,763	4.9
Inflation rate	+1	1,949,408	102,593	5.6
	-1	1,758,167	(88,648)	(4.8)
Superimposed inflation rate	+1	1,934,912	88,098	4.8
	-1	1,765,890	(80,925)	(4.4)

(iii) TMF Workers Compensation

Variable	Movement in variable %	Net Central Estimate $'000	Impact of Change $'000	Impact %
Net Central Estimate[1]		3,863,033		
Risk free rate	Discount rate = 3.7%	4,115,188	252,154	6.5
Discount rate	+1	3,589,392	(273,641)	(7.1)
	-1	4,184,400	321,367	8.3
Inflation rate	+1	4,186,177	323,144	8.4
	-1	3,583,387	(279,646)	(7.2)

1 The net central estimate is inflated and discounted, net of insurance and other recoveries and includes an allowance for claims handling expenses.

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Additional Scenarios:

TMF Workers Compensation

Variable	Movement in Variable %	Net Central Estimate $'000	Impact of Change $'000	Impact %
Net Central Estimate – Outstanding Workers Compensation Claims		3,863,033		
Tail continuance rates[1]	1%	4,331,007	467,974	12
Tail continuance rates[1]	-1%	3,229,082	(633,952)	-16
Medical Payments – Superimposed Inflation	Add 2% p.a.	4,068,322	205,289	5
Workplace Injury Damage Payments	+10% to utilisation by eligible post-2002 claims	3,932,616	69,582	2
Workplace Injury Damage Payments	-10% to utilisation by eligible post-2002 claims	3,783,598	(79,435)	(2)
NSW Police – Ultimate Number of Medically Discharged Claims[2]	Decrease prior years	3,843,004	(20,029)	(1)
NSW Police – Ultimate Number of Medically Discharged Claims[2]	Increase prior years	3,883,063	20,029	1
NSW Police – Ultimate Number of Medically Discharged Claims[3]	Increase 2016/17 by factor of 4	4,018,079	155,046	4
Emergency Services – Ultimate Number of Workplace Injury Damage Payments[4]	Increase 2002/03 – 2016/17	3,899,799	36,766	1
Emergency Services – Ultimate Number of Workplace Injury Damage Payments[4]	Decrease 2002/03 – 2016/17	3,816,415	(46,619)	(1)
Average Payments Weekly and Medical (non-medically discharged)	Increase by 10%	3,940,599	77,566	2
Average Payments Weekly and Medical (non-medically discharged)	Decrease by 10%	3,785,467	(77,566)	(2)
WAP low scenario (s39 exemptions)	Exempt proportion -10%	3,806,697	(56,336)	(1)
WAP high scenario (s39 exemptions)	Exempt proportion +10%	3,925,159	62,125	2

1 Continuance rates from 5 years after accident increased/decreased respectively – capped at 100%.
2 Ultimate number for June 2012 to June 2014 injury periods increased/decreased by 45 respectively.
3 Ultimate number for 2016/17 increased to 400.
4 Number of future imitations increased/decreased by 10% respectively.

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A sensitivity analysis of the key assumption changes for the TMF and their impact on the central estimate excluding recoveries is shown in the following tables.

(iv) TMF Non-Workers Compensation (Including Liability – Health)

Variable	Movement in variable %	Gross Central Estimate $'000	Impact of Change $'000	Impact %
Gross Central Estimate[1]		2,708,339		
Risk free rate		2,960,831	252,493	9.3
Discount rate	+1	2,573,663	(134,675)	(5.0)
	-1	2,830,657	122,318	4.5
Inflation rate	+1	2,848,911	140,573	5.2
	-1	2,576,983	(131,355)	(4.9)
Superimposed inflation rate	+1	2,828,597	120,259	4.4
	-1	2,597,833	(110,505)	(4.1)

1 The gross central estimate is inflated and discounted, includes insurance and other recoveries and an allowance for claims handling expenses.

(v) Liability (Health)

Variable	Movement in variable %	Gross Central Estimate $'000	Impact of Change $'000	Impact %
Gross Central Estimate[1]		1,929,896		
Risk free rate		2,115,742	185,846	9.6
Discount rate	+1	1,831,590	(98,306)	(5.1)
	-1	2,019,572	89,676	4.6
Inflation rate	+1	2,032,926	103,030	5.3
	-1	1,834,062	(95,834)	(5.0)
Superimposed inflation rate	+1	2,021,957	92,061	4.8
	-1	1,845,331	(84,566)	(4.4)

1 The gross central estimate is inflated and discounted, includes insurance and other recoveries and an allowance for claims handling expenses.

(vi) TMF Workers Compensation

Variable	Movement in variable %	Gross Central Estimate $'000	Impact of Change $'000	Impact %
Gross Central Estimate[1]		3,924,503		
Risk free rate	Discount rate = 3.7%	4,176,657	252,114	6.4
Discount rate	+1	3,650,861	(273,641)	(7.0)
	-1	4,245,869	321,367	8.2
Inflation rate	+1	4,247,646	323,144	8.2
	-1	3,644,856	(279,646)	(7.1)

1 The gross central estimate is inflated and discounted, and includes insurance and other recoveries and an allowance for claims handling expenses.

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Additional Scenarios:

TMF Workers Compensation

Variable	Movement in Variable %	Gross Central Estimate $'000	Impact of Change $'000	Impact %
Gross Central Estimate – Outstanding Workers Compensation Claims		3,924,503		
Tail continuance rates[1]	1%	4,392,476	467,974	12
Tail continuance rates[1]	-1%	3,290,551	(633,952)	(16)
Medical Payments – Superimposed Inflation	Add 2% p.a.	4,129,791	205,289	5
Workplace Injury Damage Payments	+10% to utilisation by eligible post-2002 claims	3,994,085	69,582	2
Workplace Injury Damage Payments	-10% to utilisation by eligible post-2002 claims	3,845,067	(79,435)	(2)
NSW Police – Ultimate Number of Medically Discharged Claims[2]	Decrease prior years	3,904,473	(20,029)	(1)
NSW Police – Ultimate Number of Medically Discharged Claims[2]	Increase prior years	3,944,532	20,029	1
NSW Police – Ultimate Number of Medically Discharged Claims[3]	Increase 2016/17 by factor of 4	4,079,548	155,046	4
Emergency Services – Ultimate Number of Workplace Injury Damage Payments[4]	Increase 2002/03 – 2016/17	3,961,268	36,766	1
Emergency Services – Ultimate Number of Workplace Injury Damage Payments[4]	Decrease 2002/03 – 2016/17	3,877,884	(46,619)	(1)
Average Payments Weekly and Medical (non-medically discharged)	Increase by 10%	4,002,068	77,566	2
Average Payments Weekly and Medical (non-medically discharged)	Decrease by 10%	3,846,937	(77,566)	(2)
WAP low scenario (s39 exemptions)	Exempt proportion -10%	3,868,167	(56,336)	(1)
WAP high scenario (s39 exemptions)	Exempt proportion +10%	3,986,628	62,125	2

1 Continuance rates from 5 years after accident increased/decreased respectively – capped at 100%.
2 Ultimate number for June 2012 to June 2014 injury periods increased/decreased by 45 respectively.
3 Ultimate number for 2016/17 increased to 400.
4 Number of future imitations increased/decreased by 10% respectively.

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Claims development tables

With the exception of plant and equipment, all assets are held to back insurance liabilities. As part of its investment strategy SI actively manages its investment portfolio to ensure that investment liquidity is in accordance with the expected pattern of future cash flows arising from insurance liabilities.

(vii) TMF Workers Compensation

Accident Year	2009 & prior $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	Total $'000
Estimate of ultimate claims cost										
At the end of accident year		730,915	870,009	806,693	766,805	742,282	675,108	674,813	762,098	
One year later		766,477	848,001	792,706	679,304	638,548	653,422	703,381		
Two years later		787,762	887,271	837,704	612,288	611,692	676,302			
Three years later		829,677	1,003,611	760,115	591,531	594,766				
Four years later		924,591	992,280	717,572	579,361					
Five years later		905,802	979,591	721,020						
Six years later		897,546	978,424							
Seven years later		949,961								
Current estimate of cumulative claim costs	8,300,417	949,961	978,424	721,020	579,361	594,766	676,302	703,381	762,098	14,265,732
Cumulative net claim payments	6,423,885	511,388	510,359	385,661	238,366	205,523	201,754	175,985	70,044	8,722,965
Undiscounted central estimate	1,876,533	438,573	468,065	335,359	340,995	389,243	474,548	527,397	692,054	5,542,767
Effect of discounting										(1,938,633)
Claims handling expense										258,899
Risk margin										
Net Outstanding claims liability at 30 June 2017										**3,863,033**

notes to the financial statements

for the year ended 30 June 2017

(viii) TMF Public Liability

Accident Year	2009 & prior $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	Total $'000
Estimate of ultimate claims cost										
At the end of accident year		506,018	509,966	505,657	520,902	536,890	518,253	476,738	511,704	
One year later		487,891	478,286	483,945	493,576	403,173	445,591	522,727		
Two years later		471,566	441,402	463,759	428,957	421,239	484,115			
Three years later		410,711	427,210	447,649	424,772	431,778				
Four years later		443,536	442,177	415,983	411,247					
Five years later		450,003	373,907	371,949						
Six years later		394,443	329,156							
Seven years later		378,725								
Current estimate of cumulative claim costs	3,507,692	378,725	329,156	371,949	411,247	431,778	484,115	522,727	511,704	6,949,094
Cumulative net claim payments	3,185,066	222,910	179,945	145,781	95,023	81,896	32,191	13,286	4,034	3,960,130
Undiscounted central estimate	322,627	155,816	149,211	226,169	316,224	349,883	451,924	509,442	507,670	2,988,964
Effect of discounting										(696,263)
Claims handling expense										156,867
Risk margin										-
Net Outstanding claims liability at 30 June 2017										**2,449,568**

Uncertainty about the amount and timing of claims in the TMF property and motor vehicle portfolios is typically resolved within one year.

The claims presented in the development tables are undiscounted, gross of insurance recoveries and net of non-reinsurance recoveries. Insurance recoveries are nil in the TMF Workers Compensation portfolio and negligible in the TMF Public Liability portfolio.

Impact of Section 39 of *Workers Compensation Act 1987* on the TMF Workers Compensation Outstanding Claims Liability

Finity have, using information supplied by icare, estimated that probable numbers of pre 2012 injured workers who will ultimately exceed a whole person impairment level of 20% thereby entitling them to weekly compensation benefits beyond 260 weeks. Previously these injured workers were all assumed to be below 21% whole person impairment and as such would cease weekly compensation benefits at the 260 week point. 49% of the pre 2002 cohort and 22% of the 2002-2012 cohort have been estimated to exceed the 20% threshold. The impact of this allowance on the June 2017 liability estimate for TMF has been an increase of $175m including the associated claims handling expenses.

notes to the financial statements

for the year ended 30 June 2017

13. Unearned premiums and unexpired risk liability

	2017 $'000	2016 $'000
Unearned premiums	289,447	246,180
Unexpired risk liability	166,183	102,965
	455,630	**349,145**

(a) Reconciliation of unearned premiums

A reconciliation of the carrying amount of unearned premiums at the beginning and end of the reporting periods is set out below.

	2017 $'000	2016 $'000
Year ended 30 June		
Net carrying amount at start of year	246,179	212,270
Deferral of premiums written in current year	109,528	83,720
Premiums earned during the year	(66,260)	(49,811)
Net carrying amount at end of year	**289,447**	**246,179**

(b) Reconciliation of restoration provision

A reconciliation of the carrying amount of restoration cost at the beginning and end of the reporting periods is set out below.

	2017 $'000	2016 $'000
Year ended 30 June		
Net carrying amount at start of year	-	121
Reversal of surplus provisions	-	(121)
Net carrying amount at end of year	**-**	**-**

SI occupied a property that had a provision requiring SI to restore the premises to its original condition at the conclusion of the lease. A restoration provision was recognised at the commencement of the lease. The lease was surrendered after staff relocated to new premises.

notes to the financial statements

for the year ended 30 June 2017

(c) Reconciliation of unexpired risk liability

At the reporting date, a liability adequacy test (LAT) is performed by the Fund Actuaries for the HBCF and CRIF.

At the balance date, SI recognises a liability in respect of outstanding claims and assesses the adequacy of its unearned premium liability. As required under AASB 1023 *General Insurance Contracts*, a Liability Adequacy Test (LAT) is undertaken to determine the adequacy of the unearned premium liability against current estimates of the present value of the expected future cash flows relating to future claims arising from the rights and obligations under current insurance contracts. Any deficiency is first written down against the deferred acquisition costs (DAC). The remaining deficiency is recognised as an unexpired risk liability. It represents the extent that the unearned premium liability is insufficient to cover expected future claims.

Reconciliation of unexpired risk liability:

	2017 $'000	2016 $'000
At beginning of year	102,965	81,610
Recognition of additional unexpired risk liability in the year	63,218	21,335
At year ended 30 June	**166,183**	**102,965**

As at the reporting date, the LAT identified a deficit of $200.5 million (2016: $133.9 million) in the HBCF. The movement in the unexpired risk liability is recognised in the Statement of Comprehensive Income.

The net deficiency calculation is shown below:

	2017 $'000	2016 $'000
Unearned premium liability	277,362	235,990
Deferred acquisition costs[1]	(34,285)	(30,935)
	243,077	**205,055**
Central estimate of present value of expected		
Future cash flows arising from future claims	385,691	294,744
Risk Margin	57,854	44,212
Premium liability provision	**443,545**	**338,956**
Net Deficiency	**200,468**	**133,901**

1 Refer to Note 10 Other Non-current Assets – Deferred Acquisition Costs.

The premium liability provision represents the actuarial assessment of future claims payments and the expenses associated with settling them. The mean term to settlement of the undiscounted premium liability is 7.3 years (2016: 6.0 years).

notes to the financial statements

for the year ended 30 June 2017

	2017 $'000	2016 $'000
Gross movement in unexpired risk liability	(63,218)	(21,355)
Write down of deferred acquisition costs[1]	(34,285)	(30,935)
Total deficiency recognised in the Statement of Comprehensive Income	**(97,503)**	**(52,290)**

1 Refer to Note 10 Other Assets – Deferred Acquisition Costs.

The probability of adequacy for HBCF was 75 per cent (2016: 75 per cent).

The actuarial assessment of the expected future cash flows relating to future claims arising from current general insurance contracts in the CRIF indicates that this estimate is lower than the current value of the unearned premium liability (net of deferred acquisition costs) and that there is therefore no deficiency in the unearned premium liability as at 30 June 2017 (30 June 2016: nil). The probability of adequacy for the CRIF was 75 per cent (2016: 75 per cent).

The TMF premiums cover the risk arising between 1 July and 30 June each year, therefore there is no unexpired risk and no unearned premium at 30 June. The liability adequacy test is only relevant to the pre-paid premiums for the 2017-18 insurance year. The outcome of the liability adequacy test for the TMF would be immaterial as the amount of pre-paid premiums at 30 June 2017 is negligible compared to the target for the 2017-18 insurance year. The probability of adequacy for the TMF was 53 per cent (2016: 53 per cent).

The risk margins have been determined by the Fund Actuaries based on the uncertainty of the outstanding claims estimates of each scheme. The uncertainty is determined on the basis that reflects the business of each fund. Regard is had to the robustness of the valuation models, reliability and volume of the available data, past experience and emerging trends, the characteristics of each scheme and the effect of reinsurance.

notes to the financial statements

for the year ended 30 June 2017

14. Disaggregated financial statements

Statement of comprehensive income

2017

	TMF $'000	HBCF $'000	CRIF $'000	GWC $'000
Revenue				
Premium and contribution revenue	1,076,020	60,646	5,949	-
Net premium and contribution revenue (a)	**1,076,020**	**60,646**	**5,949**	**-**
Claims incurred	(1,457,517)	(56,135)	(3,888)	(5,786)
Recoveries received	30,009	2,601	1,072	262
Outwards reinsurance expense	(42,055)	-	(3,217)	-
Acquisition costs	-	(34,285)	-	-
Unexpired risk liability expense	-	(63,218)	-	-
Net Claims expense (b)	**(1,469,563)**	**(151,037)**	**(6,033)**	**(5,524)**
Net premiums/contributions less claims (a+b)	**(393,543)**	**(90,391)**	**(84)**	**(5,524)**
Investment revenue	890,387	1,374	579	9,876
Grants from Crown	90,000	-	-	-
Other revenue	3	-	-	-
Hindsight adjustments	(307,870)	-	-	-
Service Fees	(146,959)	(6,919)	(933)	(190)
Statutory Levies	(30,880)	(2,084)	-	-
Other operating expenses	(3,423)	(6,983)	-	-
Grants to Crown	(195,000)	-	-	-
Net Result	**(97,285)**	**(105,003)**	**(438)**	**4,162**
Other comprehensive income				
	-	-	-	-
Total comprehensive income	**(97,285)**	**(105,003)**	**(438)**	**4,162**

notes to the financial statements

for the year ended 30 June 2017

TAC $'000	SRA/RIC $'000	BFFF $'000	ERWF $'000	SSIF $'000	2017 Total $'000
-	-	3,755	6,831	(29)	1,153,172
-	**-**	**3,755**	**6,831**	**(29)**	**1,153,172**
(14,222)	(3,723)	(3,943)	(6,568)	29	(1,551,753)
439	(1,409)	669	427	-	34,070
-	-	-	-	-	(45,272)
-	-	-	-	-	(34,285)
-	-	-	-	-	(63,218)
(13,783)	**(5,132)**	**(3,274)**	**(6,141)**	**29**	**(1,660,458)**
(13,783)	**(5,132)**	**481**	**690**	**-**	**(507,286)**
34,478	14,610	14	15	-	951,333
20,000	-	-	-	-	110,000
-	-	-	-	-	3
-	-	-	-	-	(307,870)
(221)	(149)	(495)	(705)	-	(156,571)
-	-	-	-	-	(32,964)
-	-	-	-	-	(10,406)
-	-	-	-	-	(195,000)
40,474	**9,329**	**-**	**-**	**-**	**(148,761)**
-	-	-	-	-	-
40,474	**9,329**		**-**	**-**	**(148,761)**

notes to the financial statements

for the year ended 30 June 2017

2016

	TMF $'000	HBCF $'000	CRIF $'000	GWC $'000
Revenue				
Premium and contribution revenue	1,083,628	47,544	2,267	-
Net premium and contribution revenue (a)	**1,083,628**	**47,544**	**2,267**	**-**
Claims incurred	(1,191,341)	(64,163)	1,991	(737)
Recoveries received	28,035	599	464	(23)
Outwards reinsurance expense	(36,674)	-	(1,894)	-
Acquisition costs	-	(33,040)	-	-
Unexpired risk liability expense	-	(21,355)	-	-
Net Claims expense (b)	**(1,199,980)**	**(117,959)**	**561**	**(760)**
Net premiums/contributions less claims (a+b)	**(116,352)**	**(70,415)**	**2,828**	**(760)**
Investment revenue	166,170	1,470	727	538
Grants from Crown	55,000	-	-	-
Other revenue	190	-	-	-
Hindsight adjustments	(182,752)	-	-	-
Service Fees	(151,869)	(10,514)	-	-
Statutory Levies	(28,902)	-	-	-
Other operating expenses	(8,697)	(2,550)	-	-
Grants to Crown	(185,000)	-	-	-
Net Result	**(452,212)**	**(82,009)**	**3,555**	**(222)**
Other comprehensive income	-	-	-	-
Total comprehensive income	**(452,212)**	**(82,009)**	**3,555**	**(222)**

notes to the financial statements

for the year ended 30 June 2017

TAC $'000	SRA/RIC $'000	BFFF $'000	ERWF $'000	SSIF $'000	2016 Total $'000
-	-	509	3,251	(209)	1,136,990
-	**-**	**509**	**3,251**	**(209)**	**1,136,990**
(32,125)	(7,502)	97	(2,409)	302	(1,295,887)
758	4,581	-	-	-	34,414
-	-	-	-	-	(38,568)
-	-	-	-	-	(33,040)
-	-	-	-	-	(21,355)
(31,367)	**(2,921)**	**97**	**(2,409)**	**302**	**(1,354,436)**
(31,367)	**(2,921)**	**606**	**842**	**93**	**(217,446)**
1,649	771	-	-	-	171,325
50,000	-	-	-	-	105,000
-	-	-	-	-	190
-	-	-	-	-	(182,752)
-	-	(606)	(842)	(93)	(163,924)
-	-	-	-	-	(28,902)
-	-	-	-	-	(11,247)
-	-	-	-	-	(185,000)
20,282	**(2,150)**	**-**	**-**	**-**	**(512,756)**
-	-	-	-	-	-
20,282	**(2,150)**	**-**	**-**	**-**	**(512,756)**

notes to the financial statements

for the year ended 30 June 2017

Statement of financial position

2017

	TMF $'000	HBCF $'000	CRIF $'000	GWC $'000
ASSETS				
Cash and cash equivalents	112,362	94,086	50,364	2,834
Investments	7,481,841	-	-	86,252
Receivables	198,865	23,649	7,571	2,568
Plant and Equipment	6	-	-	-
Intangible assets	6	2,447	-	-
Total Assets	**7,793,080**	**120,182**	**57,935**	**91,654**
LIABILITIES				
Payables	72,086	9,688	427	72
Unearned premiums	-	277,361	12,086	-
Outstanding claims provisions	6,759,689	147,771	6,435	79,168
Unexpired risk premium	-	166,183	-	-
Total Liabilities	**6,831,775**	**601,003**	**18,948**	**79,240**
Net Assets	**961,305**	**(480,821)**	**38,987**	**12,414**
EQUITY				
Balance as at 1 July 2016	1,058,590	(375,818)	39,425	8,252
Net Result for the year	(97,285)	(105,003)	(438)	4,162
Total Equity	**961,305**	**(480,821)**	**38,987**	**12,414**

notes to the financial statements

for the year ended 30 June 2017

TAC $'000	SRA/RIC $'000	BFFF $'000	ERWF $'000	SSIF $'000	2017 Total $'000
2,785	2,815	1,818	931	8	268,003
374,857	123,691	-	-	-	8,066,641
968	16,451	16,433	22,878	273	289,656
-	-	-	-	-	6
-	-	-	-	-	2,453
378,610	**142,957**	**18,251**	**23,809**	**281**	**8,626,759**
108	93	4,372	5,661	-	92,507
-	-	-	-	-	289,447
316,700	80,558	13,879	18,148	281	7,422,629
-	-	-	-	-	166,183
316,808	**80,651**	**18,251**	**23,809**	**281**	**7,970,766**
61,802	**62,306**	**-**	**-**	**-**	**655,993**
21,328	52,977	-	-	-	804,754
40,474	9,329	-	-	-	(148,761)
61,802	**62,306**				**655,993**

notes to the financial statements

for the year ended 30 June 2017

2016

	TMF $'000	HBCF $'000	CRIF $'000	GWC $'000
ASSETS				
Cash and cash equivalents	115,002	99,584	46,943	2,300
Investments	7,239,089	-	-	85,747
Receivables	173,580	20,109	5,729	1,058
Plant and Equipment	7	-	-	-
Intangible assets	12	3,241	-	-
Total Assets	**7,527,690**	**122,934**	**52,672**	**89,105**
LIABILITIES				
Payables	153,667	25,313	132	2,248
Unearned premiums	-	235,991	10,189	-
Outstanding claims provisions	6,315,432	134,481	2,925	78,606
Unexpired risk premium	-	102,965	-	-
Total Liabilities	**6,469,099**	**498,750**	**13,246**	**80,854**
Net Assets	**1,058,591**	**(375,816)**	**39,426**	**8,251**
EQUITY				
Balance as at 1 July 2015	1,510,803	(293,807)	35,871	8,473
Net Result for the year	(452,212)	(82,009)	3,555	(222)
Total Equity	**1,058,591**	**(375,816)**	**39,426**	**8,251**

notes to the financial statements

for the year ended 30 June 2017

TAC $'000	SRA/RIC $'000	BFFF $'000	ERWF $'000	SSIS $'000	2016 Total $'000
2,362	2,485	2,704	3,063	-	274,443
282,726	126,769	-	-	-	7,734,331
51,152	22,707	15,029	18,648	395	308,407
-	-	-	-	-	7
-	-	-	-	-	3,253
336,240	**151,961**	**17,733**	**21,711**	**395**	**8,320,441**
5,425	10,123	3,842	5,083	85	205,918
-	-	-	-	-	246,180
309,488	88,863	13,891	16,628	310	6,960,624
-	-	-	-	-	102,965
314,913	**98,986**	**17,733**	**21,711**	**395**	**7,515,687**
21,327	**52,975**	**-**	**-**	**-**	**804,754**
1,045	55,125	-	-	-	1,317,510
20,282	(2,150)	-	-	-	(512,756)
21,327	**52,975**	**-**	**-**	**-**	**804,754**

notes to the financial statements

for the year ended 30 June 2017

15. Budget review

	Notes	2017 Actuals $'000	2017 Budget $'000
Premium and contribution revenue	2(a), 14	1,153,172	1,141,291
Net premium and contribution revenue (a)		**1,153,172**	**1,141,291**
Claims incurred	3(a), 14	(1,551,753)	(1,512,549)
Recoveries received		34,070	69,588
Outwards insurance expense		(45,272)	(42,546)
Acquisition costs		(34,285)	(11,308)
Unexpired risk liability expense	13(c)	(63,218)	(29,733)
Net Claims expense (b)		**(1,660,458)**	**(1,526,548)**
Total underwriting result (a+b)		**(507,286)**	**(385,257)**
Investment revenue	2(b), 14	951,333	560,342
Grants from the Crown	3(f), 14	110,000	-
Other revenue		3	-
Hindsight adjustments	2(a), 14	(307,870)	(263,472)
Service fees	3(c)	(156,571)	(202,101)
Statutory levies	3(d)	(32,964)	(30,251)
Other operating expenses	3(b), 14	(10,406)	(2,382)
Grants to the Crown	3(f), 14	(195,000)	-
Net Result		**(148,761)**	**(323,121)**
Total comprehensive income		**(148,761)**	**(323,121)**

Net result

The net result is $174.4 m favourable to budget mainly due to the following items:

- Investment revenue $391.0 million favourable to budget due to stronger investment markets Net claims expense $133.9m unfavourable to budget, mainly due to the impact of S39 on the claims liability (refer Note 12).

notes to the financial statements

for the year ended 30 June 2017

	Notes	2017 Actuals $'000	2017 Budget $'000
ASSETS			
Cash and cash equivalents	4	268,003	151,983
Investments	6	8,066,641	7,946,234
Receivables	5	289,656	418,175
Plant and equipment	8	6	297
Intangible assets	9	2,453	9,039
Total Assets	10	**8,626,759**	**8,525,728**
LIABILITIES			
Payables		92,507	183,910
Unearned premiums	11	289,447	264,592
Outstanding claims provision	13	7,422,629	7,473,980
Unexpired risk premium	12	166,183	138,743
Total Liabilities	13	**7,970,766**	**8,061,225**
Net Assets		**655,993**	**464,503**
EQUITY			
Accumulated funds		655,993	464,503
Total Equity		**655,993**	**464,503**

Assets and liabilities

Total assets were $101 million favourable to budget mainly due to higher than budgeted investment returns.

Total liabilities were $91.6 million favourable to budget mainly due to the decrease in the provision for outstanding claims liabilities attributable to improvements in claims experience and changes in actuarial assumptions.

notes to the financial statements

for the year ended 30 June 2017

Statement of cash flows for the year ended 30 June 2017

	Notes	2017 Actuals $'000	2017 Budget $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Premium and contributions received		765,189	894,578
Claims paid	12	(1,089,748)	(1,132,594)
Recoveries		52,145	55,282
Total Underwriting		**(272,414)**	**(182,734)**
Receipts			
Proceeds from sale of investment		666,896	540,999
Investment income	2(b)	603,831	293,820
Interest received		11,096	16,231
Grants from the Crown	3(f)	110,000	-
Other income		4	-
Total Receipts		**1,391,827**	**851,050**
Payments			
Purchases of investments		(661,527)	(293,820)
Grants to the Crown	3(f)	(195,000)	-
Service fees		(178,049)	(202,101)
Other		(91,277)	(184,467)
Total Payments		**(1,125,853)**	**(680,388)**
Total cash flows from operating activities		**(6,440)**	**(12,072)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of plant and equipment		-	(110)
Sale of plant and equipment	8	-	-
Purchases of intangibles/software	8	-	(6,680)
Total cash flows from investing activities	9	**-**	**(6,790)**
NET INCREASE/(DECREASE) IN CASH		**(6,440)**	**(18,862)**
Opening cash and cash equivalents		**274,443**	**170,845**
CLOSING CASH AND CASH EQUIVALENTS	**4**	**284,003**	**151,983**

Cash flows

Cash and equivalents held as at 30 June 2017 are $116 million higher than budget mainly due to higher investment income offset by higher purchases of investments, lower premium contributions and net grants to the Crown.

notes to the financial statements

for the year ended 30 June 2017

16. Contingent liabilities

There were no contingent liabilities as at the year ended 30 June 2017 (2016: nil).

17. Funding Accumulated deficit in HBCF

During the 2016/17 year the NSW Government approved a set of policy reforms in respect of home warranty insurance in NSW. HBCF is able to apply for reimbursement of otherwise unfunded realised losses arising from underpricing of premiums between 2010 and 30 June 2019, annually and in retrospect as such otherwise unfunded losses are realised. As at 30 June 2017 $169.4m in losses has been realised.

In August HBCF received payment of $138.4m from the Crown with respect to losses arising from underpricing of premiums between 2010 and 2016.

End of audited financial statements

hbcf

hbcf financial statements

for the year ended 30 June 2017

Notes to the financial statements

pwc

HOME BUILDING COMPENSATION FUND

Actuarial Certificate
Outstanding claims liabilities at 30 June 2017

PricewaterhouseCoopers Actuarial Pty Ltd (PwC) has been contracted by the NSW Self Insurance Corporation (now part of Insurance & Care NSW or icare) to make estimates of the outstanding claims liabilities as at 30 June 2017 of the Home Building Compensation Fund.

Data

PwC has relied on historical data and other quantitative and qualitative information supplied by NSW Fair Trading and the Home Building Compensation Fund without audit or independent verification. We did, however, review this information for reasonableness and internal consistency, where possible. The accuracy of our results is dependent upon the accuracy and completeness of the underlying data.

Basis of Our Estimates

We have made central estimates of the outstanding claims liabilities, meaning that our assumptions have been selected to yield estimates that are not knowingly above or below the ultimate liabilities. In addition to our central estimates, we have estimated the risk margin required in order to provide a probability of adequacy of 75%. Our estimates include allowances for:

- Future inflation and investment return;
- Future expected recoveries; and
- A risk margin of 15% of the net outstanding claims liability. This is intended to provide a probability of adequacy of 75%.

Valuation Results

The PwC estimated liability for the Home Building Compensation Fund as at 30 June 2017, net of recoveries, including claims handing expenses and a risk margin of 15%, is $145.5 million. This amount is made up as follows:

Home Building Compensation Fund Outstanding Claims Liability at 30 June 2017	**$M**
Gross Outstanding Claims	147.77
Less Anticipated Recoveries	2.22
Net Outstanding Claims	145.55

The gross outstanding claims liability for the Home Building Compensation Fund includes an allowance for expenses of $11.51 million (excluding risk margins) to meet the cost of management of claims outstanding (including claims incurred but yet to be reported) as at 30 June 2017. The allowance for claim handling expenses included in the Home Building Compensation Fund liability equates to 10% of the net outstanding claims liability.

It is a decision for icare, acting as operator for the Home Building Compensation Fund, as to the amount adopted in the accounts.

pwc

Qualifications and Uncertainty

There is a limitation upon the accuracy of the estimates in this certificate in that there is an inherent uncertainty in any estimate of outstanding claims liabilities. This is due to the fact that the ultimate liability for claims is subject to the outcome of events yet to occur. These include, but are not limited to, future movements in the building cycle, tail development of multi-unit claims, and changes to underwriting, claim management and builder eligibility guidelines.

In our judgement, we have employed techniques and assumptions that are appropriate, and we believe the conclusions presented herein are reasonable, given the information currently available. However, it should be recognised that future claim development is likely to deviate, perhaps materially, from our estimates.

Reports

Full details of data, methodology, assumptions and results are set out in our valuation report dated 28 August 2017.

Relevant Standards

Our estimates and reports for the Home Building Compensation Fund are prepared in accordance with the Australian Accounting Standard AASB1023, and the Institute of Actuaries of Australia's Professional Standard 300, which relates to estimation of outstanding claims liabilities.

Peter Mulquiney
FIAA
28 August 2017

Andrew Ngai
FIAA
28 August 2017

statement by the chairman and chief executive officer

for the year ended 30 June 2017

Home Building Compensation Fund

Certificate under Section 41C(1B) and 41C(1C) of the *Public Finance and Audit Act 1983* and Clause 7 of the *Public Finance and Audit Regulation 2015*.

In the opinion of the Board of Directors:

1. The financial statements of the Home Building Compensation Fund have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2015* and the Treasurer's Directions. They have also been prepared in accordance with Australian Accounting Standards (which include Australian Accounting interpretations) and other authoritative pronouncements of the Australian Accounting Standards Board.
2. The financial report for the year ended 30 June 2017 exhibit a true and fair view of the position and transactions of the Home Building Compensation Fund; and
3. The directors are not aware of any circumstances as at the date of this certificate which would render any particulars included in the financial statements misleading or inaccurate.

Signed on behalf of the Board of Directors:

Michael Carapiet
Chairman
Insurance and Care NSW
25 September 2017

Vivek Bhatia
Chief Executive Officer
NSW Self Insurance Corporation and
Insurance and Care NSW
25 September 2017

INDEPENDENT AUDITOR'S REPORT

Home Building Compensation Fund

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of the Home Building Compensation Fund (the Fund), which comprise the statement of financial position as at 30 June 2017, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information.

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Fund as at 30 June 2017, and of its financial performance and its cash flows for the year in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015.

My opinion should be read in conjunction with the rest of this report.

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the Fund in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies
- precluding the Auditor-General from providing non-audit services.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

The Chief Executive's Responsibility for the Financial Statements

The Chief Executive Officer is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the PF&A Act, and for such internal control as the Chief Executive Officer determines is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Executive Officer must assess the Fund's ability to continue as a going concern except where the Fund will be dissolved by an Act of Parliament or otherwise cease operations. The assessment must disclose, as applicable, matters related to going concern and the appropriateness of using the going concern basis of accounting.

Auditor's Responsibility for the Audit of the Financial Statements

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf. The description forms part of my auditor's report.

My opinion does *not* provide assurance:

- that the Fund carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.

A Oyetunji
Director, Financial Audit Services

29 September 2017
SYDNEY

statement of comprehensive income

for the year ended 30 June 2017

	Notes	2017 $'000	2016 $'000
Premium revenue	2	60,646	47,544
Net premiums (a)		**60,646**	**47,544**
Claims expense	4	(56,135)	(64,163)
Recoveries		2,601	599
Acquisition costs	8	(34,285)	(33,040)
Unexpired risk liability expense	13	(63,218)	(21,355)
Net claims expenses (b)		**(151,037)**	**(117,959)**
Net premiums less claims (a) + (b)		**(90,391)**	**(70,415)**
Investment income	3	1,374	1,470
Service fees	5	(6,919)	(10,514)
Statutory expenses	6	(2,084)	-
Other operating expenses	7	(6,982)	(2,550)
Net Result		**(105,002)**	**(82,009)**
Other comprehensive income		**-**	**-**
Total Comprehensive Income		**(105,002)**	**(82,009)**

The accompanying notes form part of these financial statements.

statement of financial position

as at 30 June 2017

	Notes	2017 $'000	2016 $'000
Assets			
Cash and cash equivalents	9	94,086	99,584
Receivables	10	24,298	12,525
Intangible assets	11	2,447	3,241
Total Assets		**120,831**	**115,350**
Liabilities			
Payables	12	10,336	17,731
Unearned premiums	13	277,361	235,991
Provision for outstanding claims	14	147,771	134,481
Unexpired risk liability.	13	166,183	102,965
Total Liabilities		**601,651**	**491,168**
Net Assets		**(480,820)**	**(375,818)**
Equity			
Accumulated Deficit	17	(480,820)	(375,818)
Total Equity		**(480,820)**	**(375,818)**

The accompanying notes form part of these financial statements.

statement of changes in equity

for the year ended 30 June 2017

	Notes	Accumulated Funds $'000	Total Equity $'000
Balance at 1 July 2016		**(375,818)**	**(375,818)**
Surplus for the year		(105,002)	(105,002)
Other comprehensive income		-	-
Total comprehensive result for the year		**(105,002)**	**(105,002)**
Balance at 30 June 2017		**(480,820)**	**(400,820)**
Balance at 1 July 2015		(293,809)	(293,809)
Deficit for the year		(82,009)	(82,009)
Other comprehensive income		-	-
Total comprehensive result for the year		**(375,818)**	**(375,818)**
Transactions with owners in their capacity as owners		-	-
Balance at 30 June 2016		**(375,818)**	**(375,818)**

The accompanying notes form part of these financial statements.

statement of cash flows

for the year ended 30 June 2017

	Notes	2017 $'000	2016 $'000
CASH FLOW FROM OPERATING ACTIVITIES			
Premiums received		92,321	95,251
Recoveries		379	599
Claims and expenses paid		(64,379)	(22,232)
Total cash flow from premiums less claims		**28,321**	**73,618**
Receipts			
Investment income		1,520	1,470
Total Receipts excluding Scheme Activities		**1,520**	**1,470**
Payments			
Service fees		(11,975)	(11,242)
Other		(23,364)	(35,306)
Total Payments excluding Scheme Activities		**(35,339)**	**(46,548)**
Net cash from Operating Activities	9	**(5,498)**	**28,540**
Cash flow from Investing Activities			
Purchase of Intangible assets		**-**	**(1,014)**
Net increase/(decrease) in cash and cash equivalents		(5,498)	27,526
Cash and cash equivalents at the beginning of the year		99,584	72,058
Cash and cash equivalents at the end of the period	9	**94,086**	**99,584**

The accompanying notes form part of these financial statements.

notes to the financial statements

for the year ended 30 June 2017

1. Summary of significant accounting policies

(a) Constitutions and functions of the Home Building Compensation Fund (HBCF)

On 1 July 2010, the NSW Self Insurance Corporation (SICorp) became the sole home warranty insurer in New South Wales. SICorp is a statutory corporation constituted by the *NSW Self Insurance Corporation Act, 2004* (the SICorp Act).

The Home Building Compensation Fund (HBCF) was created under s12A of the SICorp Act to provide consumer protection for home owners undertaking residential building projects in NSW where the contracted builder, due to certain circumstances, defaults under the contract.

HBCF issues certificates of insurance as required under the *Home Building Act, 1989* through its appointed insurance agents.

In accordance with s12A of the SICorp Act, HBCF may receive financial support by way of money advanced by the Minister or appropriated by the Parliament for the purposes of the HBCF.

HBCF operates in one geographical segment and is a single portfolio with general insurance conducted in New South Wales only.

icare provides services at arm's-length to HBCF.

(b) Basis of preparation

These general purpose financial statements have been prepared in accordance with the requirements of the:

- Applicable Australian Accounting Standards (which include Australian Accounting Interpretations)
- the requirements of the *Public Finance and Audit Act 1983* (PFAA) and *Public Finance and Audit Regulation 2015*
- NSW Treasury Policy Papers and Treasury Circulars.

All amounts are rounded to the nearest thousand dollars ($'000) and are expressed in Australian currency.

These financial statements have been presented on a liquidity basis following receipt of an exemption from TC17-04 by NSW Treasury that statements are presented on a current and non-current basis.

As HBCF is a fund established within SICorp under s8A of the SICorp Act, the financial statements are aggregated into SICorp's financial statements.

(c) Going concern basis

These financial statements have been prepared on a going concern basis, despite the accumulated deficit. The HBCF is able to pay its current known debts as and when they fall due. Refer to Note 17 for more information on funding arrangements for HBCF.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Judgements, key assumptions and estimations management has made are disclosed in the relevant notes to the financial statements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Actual results may differ from these estimates.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Note 14 – Outstanding claims provision
- Note 16 – Financial instruments.

(e) Statement of compliance

HBCF's financial statements and notes comply with Australian Accounting Standards, which include Australian Accounting Interpretations.

notes to the financial statements

for the year ended 30 June 2017

(f) Goods and Service Tax (GST)

HBCF is exempt from income tax under Division 50 of the *Income Tax Assessment Act 1997*.

Income, expenses, and assets are recognised net of the amount of GST, except that:

- the amount of GST incurred by HBCF as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of an item of expense or as part of the cost of acquisition of an asset; and
- receivables and payables are stated with the amount of GST included.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are receivable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

(g) Comparative figures

Except where an Australian Accounting Standard permits, comparative information is disclosed in respect of the previous period for all amounts reported in the financial statements.

(h) New standards and interpretations not yet effective

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the reporting year ending 30 June 2017. The following new Standards will not have any direct impact on the financial performance or position of HBCF.

- AASB 9 *Financial Instruments*
- AASB 15, AASB 2014-5, AASB 2015-8 and AASB 2016-3 regarding Revenue from Contracts with Customers
- AASB 16 regarding leases
- AASB 1058 *Income of Not-for-profit Entities*
- AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107
- AASB 2016-6 Amendments to Australian Accounting Standards – Applying AASB 9 with AASB 4 Insurance Contracts
- AASB 2016-7 Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities
- AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities
- AASB 2017-1 Amendments to Australian Accounting Standards – Transfer of Investment Property, Annual Improvements 2014–2016 Cycle and Other Amendments
- AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014–2016 Cycle.

The proposed amendments to AASB 4 Insurance Contracts specify the financial reporting for insurance contracts. The changes will not impact the financial statements based on the current proposal. However, HBCF will conduct a full impact assessment of implementing the Standard before 1 January 2018.

AASB 9 Financial Instruments and its associated amending standards specify new recognition and measurement requirements for financial assets and financial liabilities within the scope of AASB 139 Financial Instruments: Recognition and Measurement.

HBCF already values its financial assets and financial liabilities at fair value through profit or loss. Therefore when applied, the only material impact of these standards will be on the presentation of the financial statements and disclosures in the notes.

HBCF has not early adopted any new standards and interpretations in compliance with NSW Treasury mandates per Treasury Circular NSW TC17/04.

notes to the financial statements
for the year ended 30 June 2017

2. Premium revenue

Premiums are recognised as income earned on a straight line basis over the period of the insured risk (7 years). They are exclusive of taxes and duties levied.

The proportion of the premium revenue that is not earned in the Statement of Comprehensive Income at the reporting date is recognised in the Statement of Financial Position as an unearned premium liability.

	2017 $'000	2016 $'000
Premium revenue		
Gross written premiums	102,017	85,989
Movement in unearned premium	(41,371)	(38,445)
Net premium revenue	**60,646**	**47,544**

3. Investment income

Investment income includes bank interest income.

Bank interest revenue is recognised as interest accrues.

	2017 $'000	2016 $'000
Bank interest	1,374	1,470
	1,374	**1,470**

4. Claims expense

Claims expenses are recognised when incurred. Included in claims expenses are actuarially determined revisions to the outstanding claims provisions.

	2017 $'000	2016 $'000
Claims paid	38,414	22,232
Claims handling[1]	4,432	-
Movement in claims provision	13,289	41,931
	56,135	**64,163**

1 Claims handling expenses in 2015/16 of $2.9m were transferred to icare and were included in the Service fee

notes to the financial statements

for the year ended 30 June 2017

An analysis of the claims expense for HBCF showing separately the amount relating to risks borne in the current period and the amount relating to a reassessment of risks borne in all previous periods is presented below.

	Current year $000	Prior year $000	2017 Total $000	2016 Total $000
Gross claims incurred & related expenses – undiscounted	68,668	(11,171)	57,497	67,723
Reinsurance & other recoveries – undiscounted	(756)	(1,595)	(2,351)	-
Net claims incurred – undiscounted	**67,912**	**(12,766)**	**55,146**	**67,723**
Discount & discount movement – gross claims incurred	(3,010)	1,649	(1,361)	(209)
Discount & discount movement – reinsurance & other recoveries	60	68	128	-
Net discount movement	**(2,950)**	**1,717**	**(1,233)**	**(209)**
Gross claims incurred*	**65,568**	**(9,522)**	**56,135**	**67,064**
Net claims incurred*	**64,962**	**(11,049)**	**53,913**	**67,064**

* Note that claims movements have been presented based on the net provision being adopted as the gross provision in 2016 (i.e. gross movement during 2017 includes allowance for a change in basis from net to gross).

5. Service fees

	2017 $'000	2016 $'000
Service fees to icare	6,919	10,514
	6,919	**10,514**

In accordance with the *State Insurance and Care Governance Act 2015* from 1 September 2015, HBCF receives services from Insurance & Care NSW (icare). Under the arrangement some of HBCF's costs are incurred by icare and recovered at cost from HBCF. These services include claims handling facilities, general business expenses and governance services. Included in the service fee paid to icare in 2015/16 was $56,000 audit fee for the financial statements performed by the Audit Office of NSW.

Agent's remuneration of $21m paid by icare has been treated as an acquisition cost rather than as a Service fee expense.

HBCF's key management personnel are the Board of Directors of icare, the Chief Executive Officer of icare and their direct reports. All transactions with these key management personnel are at arm's length and are included in the service fee paid to icare for those personnel remunerated by icare.

notes to the financial statements

for the year ended 30 June 2017

6. Statutory expenses

	2017 $'000	2016 $'000
State Insurance Regulatory Authority (SIRA)	2,084	-
	2,084	**-**

Pursuant to Section 12A(3)(d2) of the *NSW Self Insurance Corporation Act 2004* HBCF is required to pay SIRA costs incurred in exercising its functions in relation to the regulation of home building.

7. Other operating expenses

	2017 $'000	2016 $'000
Software support	4,662	-
Actuarial expenses	-	125
Consultancy & contractors	1,311	1,303
Audit fees – audit of financial statements	63	-
Personnel costs	-	224
Amortisation	794	728
Administration costs	35	120
Other	117	50
	6,982	**2,550**

The increase in software support and contractors expenses is due to the HBCF Transformation project, where the key success was the development of The Builders Self Service Portal. This allows NSW licensed builders access to their elegibility and policy information, and to lodge new applications. There were also changes to various systems for the introduction of risk based pricing and the removal of distribution costs.

notes to the financial statements

for the year ended 30 June 2017

8. Acquisition costs

	2017 $'000	2016 $'000
As at 1 July	-	-
Acquisition costs incurred during the year	34,285	33,040
Acquisition costs amortised during the year	-	(2,105)
Net deficiency write down[1]	(34,285)	(30,935)
As at 30 June	**-**	**-**
Acquisition costs recognised in the Statement of Comprehensive Income comprise:		
Acquisition costs amortised during the year	-	2,105
Net deficiency write down[1]	34,285	30,935
	34,285	**33,040**

1 Refer to Note 13 Unearned Premiums. Due to the unearned premium liability deficiency as identified by the Liability Adequacy Test (LAT), deferred acquisition costs are written down.

Costs directly attributable to the acquisition of premium revenue are deferred by recognising them as an asset in the Statement of Financial Position when they can be reliably measured. Deferred acquisition costs are amortised systematically over the life of the insurance policy in line with the expected pattern of the incidence of risk. This corresponds to the earning pattern of premium revenue.

9. Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise deposits held at call with banks.

	2017 $'000	2016 $'000
Cash and cash equivalents		
Cash at bank	94,086	99,584
	94,086	**99,584**
Reconciliation of net cash flows from operating activities to net surplus/(deficit) for the period		
Net cash flows from operating activities	**(5,498)**	**28,540**
Adjustments for:		
Adjustment for amortisation	(794)	(728)
(Decrease)/Increase in receivables	11,990	(1,460)
Increase in unearned premiums	(41,370)	(38,445)
Decrease/(Increase) in payables	7,177	(6,631)
Increase in outstanding claims	(13,289)	(41,930)
Increase in unexpired risk liability	(63,218)	(21,355)
Net result for the year	**(105,002)**	**(82,009)**

notes to the financial statements

for the year ended 30 June 2017

10. Receivables

	2017 $'000	2016 $'000
Premiums receivable	21,353	11,657
Insurance and other recoveries	2,223	-
Accrued interest	722	868
	24,298	**12,525**

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets, for example premium receivables, are of a short-term nature and are reported at the original invoice amount as the effect of discounting is immaterial.

The collection of premium receivables is reviewed on an ongoing basis. An allowance for impairment is established when there is objective evidence that not all amounts due will be collectable. Bad debts are written off as incurred.

Premium receivables have increased primarily due to higher levels of building activity.

Refer to note 16 for further information regarding credit risk, liquidity risk and market risk arising from financial instruments.

11. Intangible assets

	2017 $'000	2016 $'000
Gross carrying amount	3,968	3,968
Accumulated amortisation and impairment	(1,521)	(727)
Net carrying amount at end of year	**2,447**	**3,241**

Reconciliation

A reconciliation of the carrying amount of intangible assets at the beginning and end of the reporting periods is set out below.

	2017 $'000	2016 $'000
Year ended 30 June		
Net carrying amount at start of year	3,241	2,954
Additions	-	1,015
Amortisation expense	(794)	(728)
Net carrying amount at end of year	**2,447**	**3,241**

Intangible assets include capitalised expenditures for system development costs and computer software.

Intangibles are initially measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and impairment. Computer software costs are amortised on a straight line basis over 5 years.

notes to the financial statements

for the year ended 30 June 2017

12. Payables

	2017 $'000	2016 $'000
Commission payable	-	7,749
Insurance duty payable	1,565	1,630
Service fees	1,592	1,793
Accrued expenses	6,530	6,341
Goods and Services Tax	649	218
	10,336	**17,731**

Trade and other payables are recognized initially at fair value, usually based on transaction cost on face value and are carried at cost. They are liabilities for goods and services provided, but not paid for as at the reporting date. This occurs when the HBCF becomes obliged to make future payments in respect of goods and services received.

Trade and other payables are short-term payables with no stated interest rate and are measured at original invoice amount as the effect of discounting is immaterial.

Payables are non-interest bearing and are generally on 30 day terms. If trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice or a statement is received.

Refer to note 16 for further information regarding credit risk, liquidity risk and market risk arising from financial instruments.

13. Unearned premiums

	2017 $'000	2016 $'000
As at 1 July	235,991	197,546
Gross written premiums	102,017	85,989
Premiums earned during the year	(60,647)	(47,544)
As at 30 June	**277,361**	**235,991**

(a) Liability adequacy test (LAT)

At reporting date, a liability adequacy test (LAT) is performed by the Fund Actuary.

The LAT is an assessment as to whether the unearned premium liability (less any deferred acquisition costs) recognised in the Statement of Financial Position, is sufficient to meet the estimated present value of future cash flows relating to future claims. An additional risk margin is included to take into account the inherent uncertainty in the central estimate.

If the assessment shows the carrying amount of the liabilities is inadequate, any deficiency is recognised as an expense in the Statement of Comprehensive Income by firstly writing down the deferred acquisition cost.

If an additional liability is required, this is recognised in the Statement of Financial Position as an unexpired risk liability.

As at the reporting date, the LAT identified a deficit of $200.5 million (2016: $133.9 million). The deficit, after deducting the opening balance of the unexpired risk liability, is recognised as an expense in the Statement of Comprehensive Income.

notes to the financial statements

for the year ended 30 June 2017

	2017 $'000	2016 $'000
Unexpired risk liability		
Unexpired risk liability as at 1 July	102,965	81,610
Recognition of additional unexpired risk liability in the year	63,218	21,355
Unexpired risk liability as at 30 June	**166,183**	**102,965**
Deficiency recognised in the Statement of Comprehensive Income		
Gross movement in unexpired risk liability	(63,218)	(21,355)
Write down of deferred acquisition costs*	(34,285)	(30,935)
Total deficiency recognised in the Statement of Comprehensive Income	**(97,503)**	**(52,290)**
Calculation of deficiency		
Unearned premium liability	277,362	235,991
Acquisition costs*	(34,285)	(30,935)
	243,077	**205,056**
Central estimate of present value of expected		
Future cash flows arising from future claims	385,691	294,744
Risk Margin (refer note 14)	57,854	44,212
Premium liability provision	**443,545**	**338,956**
Net Deficiency	**200,468**	**133,900**

* Refer Note 8 Acquisition Costs

The premium liability provision represents the actuarial assessment of future claims expenses.

The mean term to settlement of the undiscounted premium liability is 7.3 years (2016: 6.1 years).

notes to the financial statements

for the year ended 30 June 2017

14. Provision for outstanding claims

Provisions are recognised when HBCF has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The liability for claims includes:

- claims incurred but not yet paid
- incurred but not yet reported (IBNR)
- claims incurred but not enough reported (IBNER)
- expected claims handling costs.

The provision for outstanding claims is determined by the Fund Actuary in conjunction with information supplied by the HBCF Insurance Agents. It is measured as the central estimate of the present value of the expected future payments required to settle the present obligation at the report date. It includes an additional risk margin to allow for the inherent uncertainty in the central estimate.

The uncertainty has been determined on a basis that reflects the Home Building Compensation Fund's business. Regard is had to the robustness of the valuation models, the reliability and volume of the available data, past experience of the NSW home warranty insurance market and the characteristics of the business written.

The risk margin used of 15% (2016 15%) provides an estimate at a 75% probability of adequacy.

The expected future payments are estimated on the basis of the ultimate cost of the settling of claims, which is affected by factors arising during the period to settlement such as normal inflation and "superimposed inflation".

Superimposed inflation takes account of non-economic inflationary factors, such as increases in court costs. The expected future payments are then discounted to a present value at the reporting date using discount rates based on long term Commonwealth government securities.

	2017 $'000	2016 $'000
Provision for outstanding claims as per Statement of Financial Position	147,771	134,481
Recoveries (as per Note 10)	(2,223)	-
	145,548	**134,481**
Case estimates	43,315	34,925
IBNR	76,838	75,504
Claims handling expenses (CHE)	12,015	11,043
Discount to present value	(5,605)	(4,532)
Central estimate	**126,563**	**116,940**
Risk margin	18,985	17,541
	145,548	**134,481**
Discount rates and term to settlement		
Discount rates		
Not later than one year	1.6%	1.6%
Later than one year	1.92–4.29%	1.6–3.4%
Inflation rates	2.5%	2.7%
Superimposed inflation rates	2.5%	2.3%
Weighted average term to settlement	2.1 years	2.3 years

notes to the financial statements

for the year ended 30 June 2017

The discount rate is derived from market yields on Commonwealth government bonds at the reporting date that have similar duration to the liability cash flows.

	2017 $'000	2016 $'000
Net carrying amount at start of year	134,481	92,550
Payments (All Accident years, excl CHE)	(42,846)	(25,133)
Unwinding of discounts	1,944	182
Actuarial (gain)/loss	(11,465)	7,397
Additions (liability incl. CHE)	55,476	59,485
Additions (payments incl. CHE)	10,181	-
Closing balance	**147,771**	**134,481**

AY = Accident year
CHE= Claims handling expenses

	Gross $'000	Net $'000
As at 1 July 2016	**134,481**	**134,481**
Claims incurred during the year	56,135	56,135
Incurred claims recognised in the Statement of Comprehensive Income	**56,135**	**56,135**
Claims & claims handling payments during the year	(42,845)	(42,845)
As at 30 June 2017	**147,771**	**147,771**
As at 1 July 2015	92,550	92,550
Claims incurred during the year	64,163	64,163
Incurred claims recognised in the Statement of Comprehensive Income	**64,163**	**64,163**
Claims payments during the year	(22,232)	(22,232)
As at 30 June 2016	**134,481**	**134,481**

HBCF has no non-insurance contracts, as such all assets held are used to back general insurance liabilities.

notes to the financial statements

for the year ended 30 June 2017

	2017 $'000	2016 $'000
Outstanding claims maturity		
Estimate of net cash flows:		
Less than one year	41,015	34,154
1 to 2 years	27,158	27,422
2 to 5 years	39,601	37,008
Over 5 years	12,379	11,845
Current estimate of net cash flows	**120,153**	**110,429**
Discount	(5,605)	(4,532)
Claims handling expense	12,015	11,043
Risk margin	18,985	17,541
Total net outstanding claims liability	**145,548**	**134,481**

Claims Development Table

Underwriting Year	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	Total $'000
Estimate of ultimate claim cost								
At the end of underwriting year	38,386	66,963	78,338	89,186	98,858	118,917	150,210	
One year later	85,728	77,575	67,677	82,364	88,800	125,863		
Two years later	87,257	70,492	72,070	80,577	100,886			
Three years later	79,862	77,698	70,668	79,668				
Four years later	83,291	74,853	67,563					
Five years later	81,403	79,953						
Six years later	88,107							
Current estimate of cumulative claim costs	88,107	79,953	67,563	79,688	100,886	125,863	150,210	692,251
Cumulative net claim payments	55,889	42,584	19,899	12,726	13,289	6,841	622	151,849
Net undiscounted central estimate	32,218	37,369	47,664	66,942	87,598	119,022	149,588	540,401
Effect of discounting	(2,151)	(3,152)	(5,086)	(8,615)	(12,979)	(20,871)	(29,332)	(82,187)
Claims handling expense	3,222	3,737	4,766	6,694	8,760	11,902	14,959	54,040
Risk margin	4,993	5,693	7,102	9,753	12,507	16,508	20,282	76,838
Total insurance liability at 30 June 2017	**38,282**	**43,647**	**54,446**	**74,774**	**95,886**	**126,561**	**155,497**	**589,093**
Premium liability								443,545
Outstanding claims liability at 30 June 2017								**145,548**

notes to the financial statements

for the year ended 30 June 2017

The Claims Development Table above includes the effect of the premium liability provision calculated under the Liability Adequacy Test (LAT). Refer note 13.

(a) Sensitivity analysis

The impact that possible changes in key actuarial assumptions have on the financial results is shown in the following tables:

Variable	Movement in Variable	Financial Impact: 2017 Change in outstanding claims liability $'000	%	2017 Change in insurance liability $'000	%	Net Result* $'000	LAT Deficiency $'000
Base		**145,548**		**589,093**			**200,469**
Weighted average term to settlement (years)	+0.5 years	2,324	1.6	8,430	1.4	(8,430)	206,575
	-0.5 years	(2,287)	(1.6)	(8,311)	(1.4)	8,311	194,445
Inflation rate	+1	2,825	1.9	31,149	5.3	(31,149)	228,793
	-1	(2,797)	(1.9)	(29,860)	(5.1)	29,860	173,406
Discount rate	+1	(3,094)	(2.1)	(34,307)	(5.8)	34,307	169,256
	-1	3,193	2.2	36,797	6.2	(36,797)	234,073
Claims handling expense ratio	+1	1,323	0.9	5,355	0.9	(5,355)	204,501
	-1	(1,323)	(0.9)	(5,355)	(0.9)	5,355	196,437
Risk margin	+1	1,266	0.9	5,123	0.9	(5,123)	204,326
	-1	(1,266)	(0.9)	(5,123)	(0.9)	5,123	196,612
Loss ratio	+25%	22,323	15.3	133,437	22.7	(133,437)	311,583
	-25%	(22,323)	(15.3)	(133,437)	(22.7)	133,437	89,355
Event frequency	+100% (1 in 2.5 yrs)			30,194	5.1	(30,194)	230,663
Largest builder goes insolvent on 1 July 2017		-	-	251,921	42.8	(251,921)	452,390
Downturn in building cycle		-	-	265,144	45.0	(265,144)	465,613

* Note: Net Result includes the estimated impact of a revised Liability Adequacy Test result.

notes to the financial statements

for the year ended 30 June 2017

Variable	Movement in Variable	Financial Impact: 2016 Change in outstanding claims liability $'000	%	2016 Change in insurance liability $'000	%	Net Result* $'000	LAT Deficiency $'000
Base		**134,481**		**473,436**			**136,005**
Weighted average term to settlement (years)	+0.5 years	2,386	1.8%	8,163	1.7%	(8,163)	141,782
	-0.5 years	(2,344)	-1.7%	(8,025)	-1.7%	8,025	130,324
Inflation rate	+1	2,754	2.0%	20,725	4.4%	(20,725)	153,976
	-1	(2,724)	-2.0%	(20,041)	-4.2%	20,041	118,688
Discount rate	+1	(3,038)	-2.3%	(22,884)	-4.8%	22,884	116,159
	-1	3,139	2.3%	24,289	5.1%	(24,289)	157,155
Claims handling expense ratio	+1	1,223	0.9%	4,304	0.9%	(4,304)	139,086
	-1	(1,223)	-0.9%	(4,304)	-0.9%	4,304	132,923
Risk margin	+1	1,169	0.9%	4,117	0.9%	(4,117)	138,952
	-1	(1,169)	-0.9%	(4,117)	-0.9%	4,117	133,057
Loss ratio	+25%	24,411	18.2%	104,373	22.0%	(104,373)	215,967
	-25%	(24,411)	-18.2%	(104,373)	-22.0%	104,373	56,042
Event frequency	+100% (1 in 2.5 yrs)	-	0.0%	27,245	5.8%	(27,245)	163,250

* Net result includes the estimated impact of a revised Liability Adequacy Test result.

The outstanding claims liability represents the best estimate and is based on standard actuarial assessment. Significant uncertainty exists as to the long term nature of the liabilities.

notes to the financial statements

for the year ended 30 June 2017

The main uncertainty around the estimates of future claims costs include:

- The amount of post reform (i.e. following 30 June 2002) claims experience is yet to fully mature and the modelling is based in part on benchmarking against pre-reform experience.
- The future building cycle is uncertain, especially the length and the severity of future economic downturns, and this will impact the emergence of future builder insolvencies and hence future claims costs.
- The new publicly underwritten arrangement will inevitably lead to a change in underwriting, claims management and builder eligibility guidelines compared to the private insurer arrangements, and this will likely have flow-on impacts or unintended consequences on future claims experience.
- There is particular uncertainty around how defect claims are likely to emerge and develop, especially in respect to multi-unit covers.
- The calculation of premiums requires the estimation of future expenses, which are a high proportion of the projected premium, and it is unclear the level of future expenses to be allowed for.

15. Insurance risk management

The fund's financial condition and operating activities are affected by a number of key risks including insurance risk, credit risk and liquidity risk. The fund has implemented a general risk management framework to mitigate these insurance risks and this is outlined below;

1. The maintenance and use of management information systems that provide up-to-date, reliable data on the risks to which the fund is exposed.
2. Actuarial modelling to assess the adequacy of pricing and to monitor claims patterns based on past experience of the private insurers and emerging HBCF claims.
3. Detailed underwriting procedures exist and are strictly followed for accepting risks.
4. Regular reviews and audits are performed on the underwriting function of brokers and insurance agents.
5. The majority of premiums are paid within payment terms. Outstanding debtors are managed by the Insurance Agents actively monitoring and reviewing the portfolio.

16. Financial instruments

HBCF's principal financial instruments are outlined below. These financial instruments arise directly from HBCF's operations or are required to finance those operations. HBCF does not enter into financial instruments, including derivative financial instruments, for speculative purposes.

HBCF's main risks arising from financial instruments are outlined below, together with HBCF's objectives, policies and processes for measuring and managing risk. Further quantitative and qualitative disclosures are included through these financial statements.

Management has overall responsibility for the establishment and oversight of risk management, and reviews and sets policies for managing each of these risks. Risk management policies are in place to establish frameworks and processes that identify and analyse the risks faced by HBCF, set risk limits and controls, and monitor risks.

notes to the financial statements

for the year ended 30 June 2017

Financial instrument categories

	Notes	Category	2017 Carrying Amount $'000	2016 Carrying Amount $'000
Financial Assets				
Cash and cash equivalents	9	N/A	94,086	99,584
Receivables[1]	10	Receivables (measured at amortised cost)	22,075	12,525
Financial Liabilities				
Payables[2]	12	Payables (measured at amortised cost)	8,122	15,883

1 Excludes statutory receivables
2 Excludes statutory payables

Risk management

The activities of HBCF expose it to a variety of financial risks. These are:

- Market risks
  - interest rate risk
- Credit risk
- Liquidity risk.

(a) Market risks

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

The effects on HBCF's operating result due to reasonably possible changes in risk variables are outlined in the information below, for interest rate risk. A reasonably possible change in the risk variable has been determined after taking into account the economic environment in which HBCF operates and the time frame for the assessment (i.e. until the end of the next annual reporting period). The sensitivity analysis is based on risk exposures in existence at the reporting date. The analysis assumes that all other variables remain constant.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The following table provides the sensitivity analysis of interest rate risk affecting applicable financial assets on the operating result and equity of HBCF. A reasonably possible change of +/- 1% is used, consistent with current trends in interest rates. The basis will be reviewed annually and amended where there is a structural change in the level of interest rate volatility.

		-1%		+1%	
	Carrying Amount $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000
2017					
Cash and cash equivalents	94,086	(941)	-	941	-
2016					
Cash and cash equivalents	99,584	(996)	-	996	-

notes to the financial statements

for the year ended 30 June 2017

(b) Credit risk

Credit risk arises from the financial assets of HBCF, which comprise cash and cash equivalents and receivables. HBCF's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments at reporting date.

Cash and cash equivalents

Cash comprises cash investment in banks. Interest is earned on daily bank balances at the prevailing Reserve Bank of Australia's cash rate.

Receivables

Receivables include premium receivables and other general receivables.

Trade debtors

All trade debtors are recognised as amounts receivable at the reporting date. The collection of trade debtors is reviewed on an ongoing basis. Procedures as established in the Treasurer's Directions are followed to recover outstanding amounts, including letters of demand. Debts which are known to be uncollectible are written off. An allowance for impairment is raised when there is objective evidence that HBCF will not be able to collect all amounts due. No interest is earned on trade debtors. The average credit period on sales, unless otherwise agreed, is 30 days.

HBCF does not receive any collateral for receivables.

The financial assets that are past due or considered impaired are included in the table below.

		Past due but not impaired $'000			
	Total $'000	< 3 months overdue	3–6 months overdue	> 6 months overdue	Considered Impaired $'000
2017					
Receivables	5,394	3,945	706	743	-
2016					
Receivables	1,549	151	439	958	-

Concentration of credit risk

By Credit Rating	AAA $'000	AA+ $'000	AA $'000	AA- $'00	A+ $'000	A $'000	A- $'000	Other Ratings* $'000	Total $'000
2017									
Receivables	722	-	-	-	-	-	-	21,353	22,075
2016									
Receivables	926	-	-	-	-	-	8,151	3,448	12,525

*Short term ratings of A-2 or better, when counter party has no long term rating or the long term rating is A or lower.

notes to the financial statements

for the year ended 30 June 2017

By classification of counterparty	Governments $'000	Commercial insurer $'000	Other $'000	Total $'000
2017				
Receivables	722	-	21,353	22,075
2016				
Receivables	-	-	12,525	12,525

During the current year there were no defaults on receivables. HBCF's exposure to credit risk is deemed insignificant due to there being no requirement, to date, to write off bad debts.

(c) Liquidity risk

The table below summarises the maturity profile of HBCF's financial liabilities.

	Weighted average effective interest rate %	Nominal amount $'000	Interest rate exposure $'000			Maturity dates $'000		
			Fixed interest rate	Variable interest rate	Non-interest bearing	< 1 year	1-5 years	>5 years
2017								
Payables	-	8,122	-	-	8,122	8,122	-	-
2016								
Payables	-	15,883	-	-	15,883	15,883	-	-

The payables are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in Treasury Circular NSW TC11/12. If trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice or a statement is received.

17. Funding Accumulated deficit

During the 2016/17 year the NSW Government approved a set of policy reforms in respect of home warranty insurance in NSW. HBCF is able to apply for reimbursement of otherwise unfunded realised losses arising from underpricing of premiums between 2010 and 30 June 2019, annually and in retrospect as such otherwise unfunded losses are realised. As at 30 June 2017 $169.4m in losses has been realised.

In August HBCF received payment of $138.4m from the Crown with respect to losses arising from underpricing of premiums between 2010 and 2016.

End of audited financial statements

workers insurance

workers insurance financial statements

for the year ended 30 June 2017

Notes to the financial statements

Actuarial and Insurance Consultants

Actuarial Certificate
Outstanding Claims Liabilities at 30 June 2017

Finity Consulting Pty Ltd (Finity) has been requested by Insurance & Care NSW (icare) to estimate the outstanding claims liabilities of the NSW Workers Compensation Nominal Insurer (the Nominal Insurer) as at 30 June 2017.

Data

Finity has relied on the completeness and accuracy of the data provided by icare for this valuation. We have not independently audited the data however we did review material aspects of the data for reasonableness and internal consistency. The accuracy of our results is dependent on the accuracy and completeness of the underlying data.

Basis of our Estimates

The outstanding claims estimates we provided were prepared on a central estimate basis; the assumptions have been selected such that our estimates of these liabilities contain no deliberate overstatement or understatement. The central estimate is intended to be a mean of the distribution of possible outcomes. The central estimate is net of expected recoveries and contains an allowance for claims handling expenses.

The estimates have been discounted using a risk free discount rate, to allow for the time value of money.

The total provision includes a risk margin of 15.6%, which has been added to net outstanding claims central estimate in order to provide a probability of adequacy of 80%.

The estimates were prepared in accordance with accounting standard AASB 1023,

Valuation Results

The components of the Outstanding Claims Liability (including risk margin) are shown in Table 1.

Table 1 – Outstanding Claims Liability at 30 June 2017

	$m
Central Estimate	
Gross	12,394
Recoveries	(265)
Net Central Estimate	12,129
Risk Margin	1,892
Provision	**14,021**

It is a decision for icare to determine the amount adopted in the accounts.

finity
Actuarial and Insurance Consultants

Uncertainty

There is considerable uncertainty in the projected outcomes of future claims costs, particularly for long tail claims, where payments are expected to occur many decades into the future; it is not possible to value or project long tail claims with certainty.

We have prepared our estimates on the basis that they represent our current assessment of the likely future experience of the Nominal Insurer. Sources of uncertainty include the fact that outcomes remain dependent on future events, including legislative, social and economic forces.

A key source of uncertainty in the valuation is the number of claims that are eligible for long duration benefits after the 2012 reforms – the Workers Assistance Program currently being undertaken by icare suggests that a material group of claims will be exempt from the Section 39 (5 year duration) boundary or else reach 15% Whole Person Impairment (opening access to restricted common law entitlements).

In our judgement, we have employed techniques and assumptions that are appropriate and the conclusions presented herein are reasonable given the information currently available. However, it should be recognised that future claim outcomes and costs will likely deviate, perhaps materially, from the estimates shown.

Reports

Full details of data, analysis and results for the outstanding claims valuation are documented in our valuation report titled "Insurance Liabilities at 30 June 2017 – NSW Nominal Insurer", dated 12 September 2017.

Our estimates and report were prepared in accordance with the Actuaries Institute's Professional Standard 300.

Yours sincerely

Scott Collings

Francis Beens

Fellows of the Institute of Actuaries of Australia
13 September 2017

statement by the chairman and chief executive officer

for the year ended 30 June 2017

NSW Workers Insurance Scheme
Financial Statements for the year ended 30 June 2017

In the opinion of the Board of Directors:

(a) The financial statements of the NSW Workers Insurance Scheme have been prepared in accordance and comply with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.
(b) The financial statements for the year ended 30 June 2017 exhibit a true and fair view of the position and transactions of the NSW Workers Insurance Scheme; and
(c) The directors are not aware of any circumstances as at the date of this certificate which would render any particulars included in the financial statements misleading or inaccurate.

Signed on behalf of the Board of Directors:

Michael Carapiet
Chairman/Director
Insurance and Care NSW
25 September 2017

Vivek Bhatia
Chief Executive Officer/ Director
Insurance and Care
acting for the NSW Workers Insurance Scheme
25 September 2017

INDEPENDENT AUDITOR'S REPORT

Workers Compensation Nominal Insurer (trading as the NSW Workers Insurance Scheme)

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of the Workers Compensation Nominal Insurer (the Scheme), which comprise the statement of financial position as at 30 June 2017, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information.

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Scheme as at 30 June 2017, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015.

My opinion should be read in conjunction with the rest of this report.

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the Scheme in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies
- precluding the Auditor-General from providing non-audit services.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

The Board's Responsibility for the Financial Statements

The Board of Directors of Insurance and Care NSW acting for the NSW Workers Insurance Scheme are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards, and for such internal control as the members of the Board determine is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the members of the Board must assess the Scheme's ability to continue as a going concern except where the Scheme will be dissolved by an Act of Parliament or otherwise cease operations. The assessment must disclose, as applicable, matters related to going concern and the appropriateness of using the going concern basis of accounting.

Auditor's Responsibility for the Audit of the Financial Statements

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf. The description forms part of my auditor's report.

My opinion does *not* provide assurance:

- that the Scheme carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.

A Oyetunji
Director, Financial Audit Services

29 September 2017
SYDNEY

statement of comprehensive income

for the year ended 30 June 2017

	Notes	2017 $'000	2016 $'000
Earned premiums (a)	2(i)	2,218,638	2,236,562
Claims incurred	2(ii)	(2,834,680)	(2,993,945)
Recoveries	2(iii)	10,929	75,730
Unexpired risk liability	14	56,637	(42,344)
Net claims expense (b)		(2,767,114)	(2,960,559)
Net premiums less claims (a+b)	2	**(548,476)**	**(723,997)**
Investment income	3	**438,862**	**933,258**
Other income		28,123	8,394
Service fees	5(a)	(432,305)	(380,708)
Statutory levies	5(b)	(313,160)	(312,913)
Other operating expenses	5(c)	(161,278)	(162,503)
Net Result		**(988,234)**	**(638,469)**
Other Comprehensive Income			
Items that will not be reclassified to net result		-	-
Items that may be reclassified to net result		-	-
		-	-
Total Comprehensive Income		**(988,234)**	**(638,469)**

The accompanying notes form part of these financial statements.

statement of financial position

as at 30 June 2017

	Notes	2017 $'000	2016 $'000
Assets			
Cash and cash equivalents	6	338,725	718,951
Investments	7	16,388,192	15,943,041
Trade and other receivables	8	566,293	750,496
Recoveries receivable	15	305,837	365,102
Prepayments and other assets		52,411	121,005
Property, plant and equipment	9	-	54
Intangible assets	10	43,815	8,517
Total assets		**17,695,273**	**17,907,166**
Liabilities			
Bank overdraft	6	4,413	7,089
Derivative Liabilities	7	36,020	105,246
Trade and other payables	13	338,417	456,331
Unearned premiums	14	483,711	394,692
Outstanding claims	15	14,326,664	13,379,877
Unexpired risk premium	14	74,070	130,707
Security deposits	18	66,866	79,878
Restoration provisions	16	118	118
Total liabilities		**15,330,279**	**14,553,938**
Net assets		**2,364,994**	**3,353,228**
Equity			
Accumulated funds		**2,364,994**	**3,353,228**

The accompanying notes form part of these financial statements.

statement of changes in equity

for the year ended 30 June 2017

	2017 $'000	2016 $'000
Accumulated funds		
Balance at the beginning of financial year	3,353,228	3,991,697
Net Result for the year	(988,234)	(638,469)
Other Comprehensive Income	-	-
Total Comprehensive Income	**(988,234)**	**(638,469)**
Transactions with owners in their capacity as owners	-	-
Balance at the end of the financial year	**2,364,994**	**3,353,228**

The accompanying notes form part of these financial statements.

statement of cash flows

for the year ended 30 June 2017

	Notes	2017 $'000	2016 $'000
Cash flows from operating activities			
Premiums received		2,226,270	2,425,672
Recoveries received	15	70,194	80,178
Claims paid	15	(1,881,619)	(1,798,128)
Total cash flows from scheme related activities		**414,845**	**707,722**
Receipts			
Proceeds from sale of investments		33,279,238	20,574,249
Investment returns received		561,362	467,073
Security deposits received		13,684	92,499
Other receipts		28,930	37,266
Total Receipts		**33,883,214**	**21,171,087**
Payments			
Payments for investments		(33,830,431)	(20,720,153)
Security deposits paid		(23,356)	(84,500)
Service fees		(350,549)	(546,616)
Statutory levies paid		(313,160)	(314,439)
Other payments		(131,818)	(265,167)
Total Payments		**(34,649,314)**	**(21,930,875)**
Net cash provided by/(used in) operating activities	6	**(351,255)**	**(52,066)**
Cash flows from Investing activities			
Purchases of intangible assets		(26,295)	(4,336)
Net cash flows from investing activities		**(26,295)**	**(4,336)**
Net increase/(decrease) in cash and cash equivalents		**(377,550)**	**(56,402)**
Cash and cash equivalents at the beginning of the financial year		711,862	768,264
Cash and cash equivalents at the end of the financial year	6	**334,312**	**711,862**

The accompanying notes form part of these financial statements.

notes to the financial statements

for the year ended 30 June 2017

1. Summary of significant accounting policies

a) Constitution and functions

The Nominal Insurer is a not-for-profit entity that operates as a licensed workers compensation insurer and trades under the registered business name of "NSW Workers Insurance Scheme" (the Scheme). The Nominal Insurer is established under the *Workers Compensation Act 1987* and was created on 18 February 2005 by the *Workers Compensation Amendment (Insurance Reform) Act 2003*. It commenced operations on 1 July 2005. Under the *State Insurance & Care Governance Act 2015*, Insurance & Care NSW (icare) acts for the Nominal Insurer in accordance with section 154C of the *Workers Compensation Act 1987*.

The Scheme's financial statements include the Workers Compensation Insurance Fund (Insurance Fund) that holds premiums and all other funds received and is used to meet the Scheme's liabilities.

The Act states that the Nominal Insurer is not and does not represent NSW (the state) or any authority of the state. The insurance claim liabilities of the Nominal Insurer can only be satisfied from the Insurance Fund and are not liabilities of the State, icare or any other authority of the State. The Scheme is not consolidated as part of the NSW Total State Sector Accounts or icare.

icare provides services at arms-length to the Scheme.

The financial statements for the year ended 30 June 2017 have been authorised for issue by the Chairman of the Board and the Chief Executive on behalf of the Board of Directors of icare on 25 September 2017.

b) Basis of preparation

The Scheme's financial statements are general purpose financial statements which have been prepared using the accrual basis of accounting and are in accordance with applicable Australian Accounting Standards (which include Australian Accounting Interpretations).

Investment assets backing claim liabilities are measured at fair value. All other assets and liabilities are initially measured at historical cost and then at fair value.

c) Functional and presentation currency and rounding

All amounts are rounded to the nearest one thousand dollars and are expressed in Australian currency, which is the functional currency of the reporting entity.

Tables may not add in all instances due to rounding.

notes to the financial statements

for the year ended 30 June 2017

d) Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 11 – Financial instruments
- Note 14 – Unearned premiums and unexpired risk reserve
- Note 15 – Outstanding claims.

e) Taxation

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the Statement of Financial Position.

Cash flows are presented on a gross basis.

The Australian Taxation Office has issued Private Rulings that the income of the Workers Compensation Nominal Insurer is not assessable income and that the Workers Compensation Insurance Fund is exempt from income tax from when these entities were established in 2005 to June 2018.

f) Accounting Standards issued but not yet effective

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the reporting period ending 30 June 2017. The following new Standards will not have any direct impact on the financial performance or position of the Scheme.

- AASB 4 & IFRS 17 *Insurance Contracts*
- AASB 7, 9, 132 & 139 *Financial Instruments*
- AASB 15, AASB 2014-5, AASB 2015-8 and AASB 2016-3 regarding Revenue from Contracts with Customers
- AASB 16 regarding leases
- AASB 1058 *Income of Not-for-profit Entities*
- AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107
- AASB 2016-6 Amendments to Australian Accounting Standards – Applying AASB 9 with AASB 4 Insurance Contracts
- AASB 2016-7 Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities
- AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities
- AASB 2017-1 Amendments to Australian Accounting Standards – Transfer of Investment Property, Annual Improvements 2014–2016 Cycle and Other Amendments
- AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014–2016 Cycle.

The proposed amendments to AASB 4 Insurance Contracts specify the financial reporting for insurance contracts. The changes will not impact the financial statements based on the current proposal. However, the Scheme will conduct an impact assessment of implementing the Standard before 1 January 2018.

The remaining standards relate to disclosure requirements and will have no direct impact on the Scheme's financial results.

notes to the financial statements

for the year ended 30 June 2017

2. Net premiums less claims expense

(i) Earned premium

The earned portion of premiums received and receivable is recognised as revenue. Premium is treated as earned from the date of attachment of risk. The pattern of recognition over the policy periods is based on time, which is considered to approximate the pattern of risks underwritten.

(ii) Claims incurred

Claims expense is:

- the amount incurred on claims by the Scheme during the year;
- plus the amount, which the consulting actuary has estimated as at 30 June 2017 as being the movement in the amount required to meet the cost of claims reported but not yet paid;
- claims incurred which are yet to be reported; and
- the escalation in reported and reopened claims.

The liability for the outstanding claims is estimated as the inflated and discounted values of the expected future payments, reflecting the fact that these payments will be spread over future years. The expected future payments are estimated on the basis of the ultimate cost of settling claims (including claims handling allowances), which is affected by factors arising during the period to settlement. The provision includes an allowance for claims handling expenses and a risk margin (Note 15).

The *Workers Compensation Legislation Amendment Act 2012* has resulted in claim payments being closely aligned to pre injury average weekly earnings of injured workers. Projected inflation factors take into account a number of relevant factors determined by the actuaries relating to future claims levels. The expected future payments are then discounted to a value at the end of the reporting period using rates of interest, which use appropriate risk free discount rates, consistent with Australian Accounting Standard AASB 1023 General Insurance Contracts. Details of inflation and discount rates applied are included in Note 15.

(iii) Recoveries

Recoveries revenue and claims incurred expenses are recognised as the movement of recoveries receivable and outstanding claims (Note 15), which are based on estimates provided by icare's consulting actuary, Finity. PricewaterhouseCoopers consulting actuaries, have peer reviewed these estimates and support the conclusions of Finity.

Recoveries receivable on paid claims, reported claims not yet paid and claims incurred but not yet reported are recognised as revenue. Recoveries receivable are estimated at the inflated and discounted values of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

notes to the financial statements

for the year ended 30 June 2017

3. Investment income

	2017 $'000	2016 $'000
Net Realised gain on sale of investments held for trading	759,679	209,566
Net Unrealised gain/(loss) on investments held for trading	(881,030)	76,781
Dividends	221,243	205,707
Interest	335,022	437,865
Other income	3,948	3,339
Investment income	**438,862**	**933,258**

Dividends on quoted shares are deemed to accrue when the relevant shareholding becomes ex-dividend. Differences between the fair values of investments at the end of the reporting period and their fair values at the end of the previous reporting period (or cost of acquisition, if acquired during the reporting period) are recognised as revenue in the Statement of Comprehensive Income.

4. Net claims incurred

	Current year $M	Prior year $M	2017 Total $M	2016 Total $M
Gross claims incurred & related expenses – undiscounted	3,170	2,221	5,391	1,954
Other recoveries – undiscounted	(80)	66	(14)	(59)
Net claims incurred – undiscounted	**3,090**	**2,287**	**5,377**	**1,894**
Discount & discount movement – gross claims incurred	(622)	(1,934)	(2,556)	1,040
Discount & discount movement – other recoveries	6	(3)	3	(16)
Net discount movement	**(616)**	**(1,937)**	**(2,553)**	**1,024**
Net claims incurred	**2,474**	**350**	**2,824**	**2,918**

The increase in the prior years is predominately due to the impact of Section 39 (Refer note 15).

notes to the financial statements

for the year ended 30 June 2017

5. Expenses

(a) Service fees

	2017 $'000	2016 $'000
Service fees	432,305	380,708

Service fees

In accordance with the *State Insurance and Care Governance Act 2015* from 1 September 2015 the Scheme receives services from Insurance and Care NSW (icare). Under the arrangement some of the Scheme's costs are incurred by icare. These services include the provision of staff, claims handling, facilities, scheme agent's remuneration, general business expenses and governance services.

The Scheme's key management personnel are the Board of Directors of icare, the Chief Executive Officer of icare and their direct reports. All transactions with these key management personnel are at arms length and are included in the service fee paid to icare.

(b) Statutory levies

	2017 $'000	2016 $'000
State Insurance Regulatory Authority (SIRA)	213,707	177,505
Former WorkCover Authority	-	42,242
Dust Diseases Authority	91,274	83,469
Department of Primary Industries – Mine Safety Levy	8,179	9,697
	313,160	**312,913**

In accordance with the *State Insurance and Care Governance Act 2015* from 1 September 2015 structural changes to the NSW Workers Compensation System and related agencies were implemented.

The Act established four discrete agencies:

- Insurance and Care NSW (icare), a single insurance and care service provider;
- State Insurance Regulatory Authority (SIRA), an independent insurance regulator;
- SafeWork NSW, an independent workplace safety regulator; and
- Sporting Injuries Compensation Authority, an entity to manage the Sporting Injuries Compensation Scheme.

The payment of Statutory Levies was changed from 1 September 2015 to reflect the structural changes of the Act.

notes to the financial statements

for the year ended 30 June 2017

(c) Other operating expenses

	2017 $'000	2016 $'000
Auditor's remuneration for audit of financial statements	204	-
Auditor's remuneration other	2,055	(3)
Bad debts written off	25,112	20,314
Contractors	55,953	15,851
Debt collection fees	15,248	14,055
Fund manager remuneration	30,684	23,630
Impairment of trade and other receivables	(2,106)	8,590
Interest expense	367	506
Operating lease expenses	1,224	1,272
Scheme agents' remuneration	-	52,579
Wage audit fees	5,510	9,572
Depreciation expense	54	64
Other	26,973	16,073
	161,278	**162,503**

Included in the Service fee paid to icare in 2015–16 was $125,000 for the audit of the financial statements performed by the Audit Office of NSW, and $894,000 for the audit of the Scheme Agent and Master Custodian financial statements performed by KPMG.

As a Scheme engaged in transformation, the skills and expertise of contractors are used where appropriate to deliver improved outcomes to customers.

Fund manager remuneration includes base fees which are generally paid quarterly.

Scheme agent's remuneration is now part of the Service fee paid to icare (Refer Note 5(a)).

notes to the financial statements

for the year ended 30 June 2017

6. Cash and cash equivalents

	2017 $'000	2016 $'000
Money Market Deposits	48,085	173,050
Cash	290,640	545,901
Total cash and cash equivalents	**338,725**	**718,951**
Bank overdraft	(4,413)	(7,089)
Balance as per Statement of Cash Flows	**334,312**	**711,862**

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions and bank overdrafts that are repayable on demand.

The Scheme holds short-term term deposits with major Australian Banks as security for the payment of premiums by large employers who participate in the optional alternative premium method commonly known as the Retro-Paid Loss Premium. These term-deposits are not included in cash and cash equivalents. Instead they are included in

Prepayments and Other Assets as upon the payment of all potential premium debts or when the security is in excess of the amount of maximum unpaid premium, the security is returned to the employer. (Refer note 18).

The Scheme includes as operating cash flows the purchase and sale of financial assets as premiums less claims cost paid to date are invested to meet future workers compensation claim costs.

Reconciliation of Net result to Net cash provided by/(used in) operating activities

	2017 $'000	2016 $'000
Net result:	**(988,234)**	**(638,469)**
Depreciation expense	54	64
Increase in actuarially assessed claim liabilities	946,787	1,223,178
Increase in unearned premiums	89,019	39,552
Increase/(decrease) in unexpired risk liability	(56,637)	42,344
Unrealised loss/(gain) on investments	122,500	(181,660)
Net investment (purchases)/sales	(551,193)	(504,626)
(Increase)/decrease in receivables	49,949	(22,949)
Increase/(decrease) in payables	49,512	(31,839)
Increase/(decrease) in Security deposits payable	(13,012)	22,339
Net cash provided by/(used in) operating activities	**(351,255)**	**(52,066)**

(a) Interest rate risk exposure

Details of the Scheme's exposure to interest rate changes on bank overdraft are set out in Note 11.

(b) Fair value disclosures

The carrying amount of the Scheme's borrowings approximates their fair value.

(c) Bank overdraft

The bank overdraft may be drawn at any time and is non-interest bearing.

notes to the financial statements

for the year ended 30 June 2017

7. Investments

	2017 $'000	2016 $'000
Investment assets		
Indexed and interest bearing securities	8,700,527	9,858,992
Australian equities	17	993,073
International equities	81,743	1,777,768
Unit trusts	7,411,922	3,163,054
Derivatives	193,983	150,154
	16,388,192	**15,943,041**
Investment liabilities		
Derivatives	36,020	105,246
Net financial assets	**16,352,172**	**15,837,795**

The main purpose of the Scheme's investments is to fund claim liabilities. Investment policies are put in place with the intention for the net financial assets to outperform the growth in these liabilities.

Investments and other financial assets are held primarily for the purpose of being traded. Accordingly all of the Scheme's financial assets and financial liabilities are at fair value through profit or loss – classified as held for trading.

The fair value of financial assets and financial liabilities is estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the Statement of Financial Position date. The quoted market price used for financial assets held by the Scheme is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price without any deduction for transaction costs.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Scheme uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the Statement of Financial Position date.

Where the fair values of financial assets and financial liabilities recorded on the Statement of Financial Position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

Derivatives include interest rate swaps and futures, swaptions, credit default swaps, cross currency swaps and forward foreign currency contracts, and options on interest rates, foreign currencies and equities.

The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Scheme designates certain derivatives as either; (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

Hedging strategies are determined by icare's Investment and Asset Committee (a sub-committee of the Board of icare), within the investment strategy for the Scheme. Hedging is conducted at two levels:

1) At the overall fund level, where TCorp decides on instruments and transaction parameters. Transactions are implemented in bond options and swaptions by TCorp and equity options by State Street Global Markets (SSGM).

2) In underlying portfolios, by appointed investment managers who have discretion to implement hedges within mandate boundaries.

notes to the financial statements

for the year ended 30 June 2017

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Statement of Comprehensive Income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the Statement of Comprehensive Income within other income or other expense together with the gain or loss relating to the ineffective portion and changes in the fair value of the hedge fixed rate borrowings attributable to interest rate risk.

The fair values of any derivative financial instruments used for hedging purposes, if any, are disclosed in Note 11.

8. Trade and other receivables

	2017 $'000	2016 $'000
Premiums receivable[1]	424,478	359,660
Interest, dividends and other investment income receivable	65,678	91,412
Trade proceeds yet to be settled[2]	30,818	185,372
Deposits held with brokers/counter parties:		
Margin calls	52,001	121,480
Other receivables	28,435	18,563
GST receivable	-	11,230
Less: allowance for impairment	(35,117)	(37,221)
Total trade and other receivables	**566,293**	**750,496**
Total trade and other receivables (before impairment)	601,410	787,717
Total allowance for impairment	(35,117)	(37,221)
Total trade and other receivables (after impairment)	**566,293**	**750,496**

1 Employers are able to pay premiums on a lump sum, quarterly instalment basis or a monthly instalment basis.

2 Purchases and sales of investments are recognised on trade date – the date on which the Scheme commits to purchase or sell the asset.

(a) Status of trade receivables

Collectability of trade receivables is reviewed on an ongoing basis. Where receivables are outstanding beyond the normal trading terms, management assesses the likelihood of the recovery of these receivables. Individual debts that are known to be uncollectible are written off directly to the Statement of Comprehensive Income when identified. An impairment allowance is recognised when there is objective evidence that the Scheme is unlikely to collect the receivable.

(b) Allowance for impairment status of receivables

At 30 June, the impairment allowance is increased or decreased based on an assessment of the likelihood of recovery of individual receivables.

Apart from a limited number of industries covered by specialised insurance arrangements, all employers in New South Wales are able to take out a workers compensation insurance policy with the Scheme. Accordingly the credit quality of these debts is viewed as the average of the credit quality of employers in the State.

notes to the financial statements

for the year ended 30 June 2017

Reconciliation of allowance for impairment – receivables

	2017 $'000	2016 $'000
Allowance for impairment as at 1 July	37,221	28,631
Increase/(decrease) to allowance for impairment	(2,104)	8,590
Allowance for impairment as at 30 June	**35,117**	**37,221**

Ageing of receivables

Where credit terms have been re-negotiated, the date that the premium debt was incurred remains unchanged. Consequently, ageing of premium debts applies from the date that the debt was incurred and not from the date of renegotiation.

	Total $'000	Past due but not impaired $'000	Considered impaired $'000
2017			
Within normal terms	476,180	-	-
Less than 3 months overdue	49,348	46,749	2,599
3 months to 6 months overdue	33,282	28,060	5,222
Greater than 6 months overdue	42,600	15,304	27,296
	601,410	**90,113**	**35,117**

	Total $'000	Past due but not impaired $'000	Considered impaired $'000
2016			
Within normal terms	700,357	–	-
Less than 3 months overdue	33,541	29,158	4,383
3 months to 6 months overdue	20,976	13,203	7,773
Greater than 6 months overdue	32,843	7,778	25,065
	787,717	**50,139**	**37,221**

notes to the financial statements

for the year ended 30 June 2017

9. Property, plant and equipment

	Leasehold Improvements $'000	Total $'000
At 30 June 2017 – fair value		
Gross carrying amount	118	118
Accumulated depreciation	(118)	(118)
Net carrying amount	**-**	**-**
At 30 June 2016 – fair value		
Gross carrying amount	118	118
Accumulated depreciation	(64)	(64)
Net carrying amount	**54**	**54**

Reconciliation

A reconciliation of the carrying amount of property, plant and equipment at the beginning and end of the current and previous reporting periods is set out below:

	Leasehold Improvements $'000	Total $'000
Year ended 30 June 2017		
Net carrying amount at start of financial year	54	54
Depreciation expense	(54)	(54)
Net carrying amount at the end of the financial year	**-**	**-**
Year ended 30 June 2016		
Net carrying amount at start of financial year	-	-
Additions	118	118
Depreciation expense	(64)	(64)
Net carrying amount at the end of the financial year	**54**	**54**

Assets are initially recognised at cost. Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire the asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the requirements of other Australian Accounting Standards. Assets acquired at no cost, or for nominal consideration, are initially recognised at their fair value at the date of acquisition. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at measurement date. Property, plant and equipment over $5,000 are capitalised.

Non-specialised assets with short useful lives are measured at depreciated historical cost, as an approximation of fair value. The Scheme has assessed that any difference between fair value and depreciated historical cost is unlikely to be material.

When assets are revalued, any balances of accumulated depreciation at the revaluation date in respect of those assets are credited to the asset accounts to which they relate. The net asset accounts are then increased or decreased by the revaluation increments or decrements.

Depreciation is provided for on a straight line basis. Leasehold improvements are depreciated over the unexpired term of the respective leases or the estimated life of the improvements whichever is the shorter.

notes to the financial statements

for the year ended 30 June 2017

Restoration costs

The estimated cost of dismantling and removing an asset and restoring the office sites is included in the cost of an asset, to the extent it is recognised as a liability.

10. Intangible assets

	Software WIP $'000	Total $'000
At 30 June 2017 – fair value		
Cost (gross carrying amount)	43,815	43,815
Accumulated amortisation and impairment	-	-
Net carrying amount	**43,815**	**43,815**
At 30 June 2016 – fair value		
Cost (gross carrying amount)	8,517	8,517
Accumulated amortisation and impairment	-	-
Net carrying amount	**8,517**	**8,517**

Reconciliation

A reconciliation of the carrying amount of each class of intangible assets at the beginning and end of the current and previous reporting periods is set out below.

	Software WIP $'000	Total $'000
Year ended 30 June 2017		
Net carrying amount at start of year	8,517	8,517
Additions – Internal development	35,298	35,298
Amortisation expense	-	-
Net carrying amount at end of year	**43,815**	**43,815**
Year ended 30 June 2016		
Net carrying amount at start of year	–	–
Additions – Internal development	8,517	8,517
Amortisation expense	-	-
Net carrying amount at end of year	**8,517**	**8,517**

The Scheme recognises intangible assets only if it is probable that future economic benefits will flow to the entity and the cost of the asset can be measured reliably. Intangible assets are measured initially at cost. Where an asset is acquired at no or nominal cost, the cost is its fair value as at the date of acquisition.

notes to the financial statements

for the year ended 30 June 2017

The capitalisation threshold for intangible assets is $100,000 and above (including direct allocation of personnel service costs).

All research costs are expensed. Development costs are only capitalised when certain criteria are met.

The useful lives of intangible assets are assessed to be finite. The Scheme charges amortisation on intangible assets using straight–line method over a period of three years.

Intangible assets are subsequently measured at fair value only if there is an active market. As there is no active market for the Scheme's intangible assets, the assets are carried at cost less any accumulated amortisation and impairment losses.

Intangible assets are tested for impairment where an indicator of impairment exists. If the recoverable amount is less than its carrying amount, the carrying amount is reduced to recoverable amount and the reduction is recognised as an impairment loss.

11. Financial instruments

The icare Board acting for the Nominal Insurer is ultimately responsible for identifying and controlling financial risks including the establishment of an overall financial risk management strategy and policy.

In May 2015, NSW Treasury Corporation (TCorp) was appointed to provide investment management and administration services to icare managed investment funds. TCorp are engaged through a Master Financial Services Agreement (MFSA) which details, amongst other things, the service and reporting provisions.

Market price risk

Market price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Market price risk arises as a result of the Scheme holding and trading investments as part of its asset allocation.

The Scheme seeks to manage exposure to market price risk so that it can generate sufficient returns to meet the Scheme's current and future liabilities. The Scheme's portfolio of investments is invested in accordance with its strategic asset allocation. The purpose of the strategic asset allocation is to construct a portfolio that achieves the Scheme's investment objectives including a return in excess of the liability discount rate, while limiting the probability of large declines in the Scheme's funding ratio.

The actual asset allocations can deviate from the benchmark asset allocation due to:

- Scheme cash flows;
- Fluctuations in market prices; and
- Dynamic asset allocation decisions.

Dynamic asset allocation refers to medium term shifts away from the strategic asset allocation which are designed to capture market opportunities or to mitigate risks.

The deviations in actual versus benchmark asset allocation at the end of the reporting period were within the agreed tolerance limits for all asset classes.

Based on the asset allocation TCorp appoints investment managers in each asset class, following consultation with icare. Management of the Insurance Fund's assets is allocated to the appointed investment managers. Each investment manager is subject to restrictions in relation to the types of assets in which it may invest, and in relation to the composition of investments within certain asset types. These restrictions are expressed in formalised mandates typically contained in individually negotiated Investment Management Agreements or as described in Information Memoranda (or similar documents) issued by the relevant investment manager where the investment is via a pooled fund. The investment mandates are monitored on a daily basis to ensure that investment managers are compliant with their mandates and relevant agreements.

Each investment manager is responsible for managing security specific risk using its distinct management style. Each investment manager is also responsible for constructing a portfolio that aims to achieve its own investment objectives while complying with the restrictions and guidelines contained in the mandate or Information Memorandum.

A risk budgeting framework is used to help determine an appropriate strategic asset allocation for the Scheme.

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for the year ended 30 June 2017

This framework incorporates the risk and return characteristic of the different asset classes in the portfolio and additional factors such as inflation and interest rates. Within this framework, a number of risk measures are employed including the frequency of negative returns, the volatility of the investment portfolio relative to the value of the liability and Value-at-Risk (VaR) analysis.

TCorp, in conjunction with its asset consultant (Mercer), conducts the risk budgeting analysis utilising:

- Assumptions regarding the expected level of return, risk and correlations between price and wage inflation, bond yields and returns from different asset classes (for example equities, bonds, property and alternative assets); and
- Assumptions regarding the duration of inflation-linked and other liabilities consistent with those used by the Scheme Actuary.

The analysis incorporates scenario analysis to determine the risk and return of different investment strategies relative to the change in the liabilities over a period.

The analysis is primarily used to compare different investment strategies, and then to determine the investment strategy that has the appropriate level of risk, given the risk and return objectives of the Scheme.

The risk budgeting analysis is based on certain simplifying assumptions such as statistical characteristics of investment returns, volatilities and correlations – that may not represent actual outcomes. It is also important to note that the analysis only allows for some economic factors such as inflation and bond yields, which affect the value of the Scheme liabilities. It does not allow for other factors such as the claims loss ratio, claims incidence and recovery rates, which also affect the value of the Scheme liabilities. As such, the analysis may not be accurate in its assessment of the liability.

The VaR risk measure seeks to estimate the potential investment loss over a given holding period at a specified confidence level. The VaR methodology is a statistically-defined, probability-based approach to risk assessment that takes into account market volatilities as well as risk diversification by identifying offsetting positions and correlations between financial instruments and markets. The VaR methodology allows risks to be measured consistently across all markets and financial instruments and to be aggregated into a single risk number.

VaR is calculated using simulated forward looking expected returns at the 95th percentile confidence level over a 12 month time period. This represents the minimum expected reduction in the value of the Scheme's investment portfolio which has a 5 per cent chance of being exceeded over a one year period.

In addition to a VaR measure, the risk budgeting framework is also used to assess the following risk and return characteristics:

- Expected return on the investment portfolio;
- Probability of meeting return targets that incorporate measures of wage inflation; and
- The performance of the investment portfolio under different economic scenarios.

The most recent VaR analysis was conducted in July 2017 based on the June 2017 financial instruments and is computed via forward looking simulation using a 95 per cent confidence interval and a 1-year holding period.

VaR is calculated at balance date and represents an estimate of the loss that can be expected over a 1-year period with a 5 per cent probability that this amount may be exceeded.

Given the Scheme's balance sheet position at 30 June 2017, the minimum potential loss expected over a 1-year period is $327.7 million (June 2016: $276.3 million), with a 5 per cent probability that this minimum may be exceeded.

notes to the financial statements

for the year ended 30 June 2017

Interest rate risk

Interest rate risk is the risk that the (fair) value of a financial instrument will fluctuate because of changes in market interest rates. The value of the Scheme's liabilities is also affected by interest rate fluctuations.

(i) Exposure:

Interest rate risk arises as a result of the Scheme holding financial instruments which are subject directly or indirectly to changes in value as a result of interest rate fluctuations. Scheme liabilities are similarly subject directly or indirectly to changes in value as a result of interest rate fluctuations.

(ii) Risk management objective, policies and processes:

The interest rate and inflation risk of the Insurance Fund is managed primarily through its strategic asset allocation and mandate objective setting. At 30 June 2017 the Insurance Fund had a 18 per cent (2016: 20 per cent) allocation to Australian Commonwealth and state government bonds to mitigate interest rate risk of

Scheme liabilities and a further 27 per cent (2016: 23 per cent) allocation to Australian Commonwealth and state government inflation linked bonds to mitigate inflation risk of Scheme liabilities.

(iii) Quantitative analysis of exposure:

The table on the following page summarises the Scheme's exposure to interest rate risks. It includes the Scheme's indexed and interest-bearing financial assets and liabilities at fair values, categorised by the earlier of their contractual re pricing or maturity dates.

The table does not show all assets and liabilities of the Scheme. Assets and liabilities not shown in the table below are not indexed and interest bearing and are therefore not directly exposed to interest rate risk.

2017

		Fixed interest rate maturing in				
	Floating interest rate $'000	3 months or less $'000	4 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
Class						
Cash	290,640	-	-	-	-	290,640
Money market deposits	48,085	-	-	-	-	48,085
Indexed and interest bearing securities	5,342,008	26,366	67,210	522,349	2,742,594	8,700,527
Interest rate swaps	-	-	-	-	770	770
Options on fixed income	-	98,913	-	-	-	98,913
Interest rate futures	-	43,140	-	-	-	43,140
Assets	**5,680,733**	**168,419**	**67,210**	**522,349**	**2,743,364**	**9,182,075**
Interest rate swap	-	-	-	(375)	(17,238)	(17,613)
Interest rate futures	-	-	-	-	-	-
Liabilities	**-**	**-**	**-**	**(375)**	**(17,238)**	**(17,613)**

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2016

	Floating interest rate $'000	Fixed interest rate maturing in: 3 months or less $'000	4 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
Class						
Cash	545,901	–	–	–	–	545,901
Money market deposits	173,050	–	–	–	–	173,050
Indexed and interest bearing securities	4,917,708	68,678	450,236	893,209	3,529,161	9,858,992
Interest rate swaps	–	–	–	–	1,332	1,332
Options on fixed income	–	27,110	10,810	–	–	37,920
Interest rate futures	–	2,294	–	–	–	2,294
Assets	**5,636,659**	**98,082**	**461,046**	**893,209**	**3,530,493**	**10,619,489**
Interest rate swap	–	–	–	(302)	(57,643)	(57,945)
Interest rate futures	–	(568)	(217)	–	–	(785)
Liabilities	**–**	**(568)**	**(217)**	**(302)**	**(57,643)**	**(58,730)**

The Scheme's exposure to interest rate price risk is considered a component of market price risk and is quantified as part of the VaR analysis discussed under Market Price Risk.

The Scheme is exposed to interest rate cash flow risk on its floating rate interest bearing securities as interest income earned varies according to prevailing market interest rates.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

(i) Exposure:

The Scheme is exposed to foreign exchange risk as a result of the foreign currency denominated investments held as part of its asset allocation.

(ii) Risk management objective, policies and processes:

Independent investment managers manage foreign exchange risk. The investment grade credit (developed markets) managers fully hedge portfolio foreign currency exposures. An independent investment manager has been appointed to implement a currency hedge strategy for the developed markets' equity exposure. No hedging of foreign currency exposures to Australian dollars is undertaken on the value of assets invested in emerging markets.

The primary instruments used to achieve the foreign currency overlay are forward foreign exchange contracts.

The positions are reported on an ongoing basis by the Scheme's custodian, State Street Bank and Trust Company, under a Service Level Agreement and reporting is provided both daily and monthly by the custodian to management for monitoring.

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for the year ended 30 June 2017

(iii) Quantitative analysis of exposure:

A summary of the Scheme's exposure to foreign exchange risk, including of foreign currency derivatives is shown in the table below.

	US Dollars $'000 AUD	Euro $'000 AUD	Japanese Yen $'000 AUD	Other currencies $'000 AUD	Total $'000
2017					
International equities	16,578	1,238	-	63,928	81,744
International trusts	-	-	-	-	-
International listed property trusts	102	-	-	-	102
International floating rate securities	22,695	-	-	7,043	29,738
International bonds	196,315	3,300	-	244,966	444,581
Foreign currency derivatives (Assets)	5,046	31	1,141	4,319	10,537
Foreign currency derivatives (Liabilities)	(2)	(528)	-	(3,514)	(4,044)
Swap derivative (Assets)	-	-	-	-	-
Swap derivative (Liability)	-	-	-	-	-
Foreign exchange exposure position	**240,734**	**4,041**	**1,141**	**316,742**	**562,658**
2016					
International equities	1,063,294	142,873	83,431	493,285	1,782,883
International trusts	15,809	–	–	632	16,441
International listed property trusts	74,042	–	–	1,912	75,954
International floating rate securities	48,011	3,985	–	4,022	56,018
International bonds	359,030	504	–	241,757	601,291
Foreign currency derivatives (Assets)	143	1,016	29	4,942	6,130
Foreign currency derivatives (Liabilities)	(2)	(72)	(479)	(4,938)	(5,491)
Swap derivative (Assets)	17,520	1,597	–	–	19,117
Swap derivative (Liability)	(23,121)	(1,723)	–	–	(24,844)
Foreign exchange exposure position	**1,554,726**	**148,180**	**82,981**	**741,612**	**2,527,499**

Liquidity risk

The Scheme is exposed to liquidity risk from holding financial assets that may not be readily convertible to cash to meet financial liabilities and claims costs.

(i) Exposure:

The financial assets of the Scheme that may not be readily convertible to cash are largely premium receivables (refer Note 8) and investments in over-the-counter or thinly traded investments, principally unlisted property trusts and infrastructure debt.

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for the year ended 30 June 2017

(ii) Risk management objective, policies and processes:

The Scheme maintains adequate liquidity to meet the daily cash requirements for claims payments and other operating costs.

To assist in meeting its liquidity risk management objectives, the Scheme maintains a cash balance and invests most of its assets in investments that are traded in active markets that can be readily disposed of. The Scheme also has the ability to borrow in the short term to ensure settlement of amounts due if required.

The Scheme invests a proportion of its assets in less liquid listed investments or investments that are not traded on active markets and this is strictly controlled in accordance with the asset allocation together with a policy which limits exposure to illiquid investments.

Each investment manager is responsible for cashflow management of the assets that have been mandated to them. That is, each investment manager is responsible for managing settlement liquidity risk. The custodian supplies daily reporting to each investment manager to assist them in this process.

(iii) Quantitative analysis of exposure:

The financial liabilities of the Scheme comprise cash due to brokers, derivative positions, interest and other payables. The types of financial liabilities of the Scheme were similar at 30 June 2016.

The other Scheme liabilities are either claims related (maturity is disclosed in Note 15) or are related to insurance operations and have a maturity of less than 12 months.

Cash due to brokers is payable on demand. Interest and other payables are typically settled within 30 days. If the derivative positions are closed out prior to maturity by entering into offsetting transactions, the Scheme settles its derivative obligations in cash rather than physical delivery.

Liability maturity

All of the Scheme's financial liabilities held for trading relate to derivatives whose maturity is listed below:

	Less than 1 month $'000	2 to 12 months $'000	Greater than 12 months $'000	Total $'000
2017				
Derivatives	783	3,261	31,976	36,020
2016				
Derivatives	3,061	9,945	92,240	105,246

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Fair value estimation

The carrying amounts of the Scheme's financial assets and liabilities at the end of the reporting period approximated their fair values as all financial assets and liabilities held were either at fair value at the end of the reporting period ('marked to market') or were short term in nature.

The financial assets and liabilities are classified in accordance with the following fair value measurement hierarchy:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities. The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets of the Scheme is the current bid price;
- Level 2 – inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices). The fair value of financial instruments that are not traded in an active market (for example over-the-counter derivatives) is determined using valuation techniques. A variety of methods are used which include assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used to estimate fair value for debt securities for disclosure purposes. Evaluations of such securities are based on market data. Vendors utilise evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information and for structured securities, cash flow and when available loan performance data. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the end of the reporting period. These instruments are included in level 2 and comprise debt instruments and derivative financial instruments;
- Level 3 – inputs for the assets or liabilities that are not based on observable market data. The fair value of financial instruments that are not based on observable market data (for example unlisted property trusts and infrastructure debt) is determined using valuation techniques. The table below sets out information about significant unobservable inputs used at year end in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

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for the year ended 30 June 2017

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2017				
Other financial assets				
Indexed and interest bearing securities	7,249,714	1,360,401	90,412	8,700,527
Australian equities	-	-	17	17
International equities	81,743	-	-	81,743
Unit Trusts	-	6,127,248	1,284,674	7,411,922
Derivatives	57,010	136,973	-	193,983
	7,388,467	**7,624,622**	**1,375,103**	**16,388,192**
Other financial liabilities				
Derivatives	-	36,020	-	36,020
2016				
Other financial assets				
Indexed and interest bearing securities	6,877,059	2,848,673	133,260	9,858,992
Australian equities	992,979	67	27	993,073
International equities	1,773,269	4,499	-	1,777,768
Unit Trusts	249,710	1,684,463	1,228,881	3,163,054
Derivatives	12,302	137,852	-	150,154
	9,905,318	**4,675,554**	**1,362,168**	**15,943,041**
Other financial liabilities				
Derivatives	785	104,461	-	105,246

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for the year ended 30 June 2017

Type	Description	Valuation technique	Significant unobservable inputs	Range of estimates (weighted avg) for unobservable input	Inter-relationship between significant unobservable inputs and fair value measurement
Unit Trusts	Units in unlisted wholesale property trusts	Adjusted net asset value	Discount for lack of marketability/ restricted redemptions	2017: 5–10% (7.5%) (2016: 5–10% (7.5%))	Increase in discount would result in a lower fair value.
Indexed and Interest Bearing Securities	Collateralised mortgage trust obligations	Valuation prices provided by an independent security price provider	Discount for lack of marketability	2017: 7.5–15% (11.25%) (2016: 7.5–15% (11.25%))	An increase in discount would result in a lower fair value
Indexed and Interest Bearing Securities	Private infrastructure debt	Valuations performed by an independent business and debt valuer	Discount for lack of marketability	2017: 10–20% (15%) (2016: 10–20% (15%))	An increase in discount would result in a lower fair value.

Discount for lack of marketability: represents the discount applied to the net asset value or valuation provided by the independent valuer to reflect the lack of marketability or liquidity of the funds/investments. Management determines these discounts based on its judgement after considering investment-specific factors such as quality of the underlying assets.

Transfers between levels

The Scheme recognises transfers between levels of the fair value hierarchy at the end of the reporting report during which the transfer has occurred. The following table presents the transfers between levels for the year ended 30 June 2017:

	2017 $'000	2016 $'000
Opening balance	1,362,168	1,290,117
Transfers into Level 3	-	24
Purchases of securities	21,229	34,272
Other increases	-	-
Sale of securities	(83,219)	(45,575)
Transfer out of Level 3	-	-
Gain/(loss) in Profit & Loss (investment income)	74,925	83,330
Closing balance	**1,375,103**	**1,362,168**
Total gains/(losses) for the period included in profit or loss that relate to assets held at the end of the reporting period (shown in investment income)	**74,925**	**83,330**

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for the year ended 30 June 2017

During the year ending 30 June 2017:

- equity securities with a carrying value of $nil (2016: $24 thousand) were transferred from Level 1 to Level 3 because public price quotations in an active market for these instruments were no longer available.
- debt securities of $32 thousand (2016: Nil) were transferred from Level 2 to Level 1 as public price quotations in an active market for those securities became available.

Valuation framework

The Scheme has an established control framework with respect to the measurement of fair values. This framework has been outsourced to an external service provider which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls conducted by the outsourced service provider include:

- Verification of observable pricing;
- Re-performance of model valuations;
- A review and approval process for new models and changes to models;
- Quarterly calibration and back testing of models against observed market transactions;
- Analysis and investigation of significant daily valuation movements;
- Review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared to previous month.

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, the outsourced service provider assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of accounting standards. This includes:

- Verifying that the broker or pricing service is approved by the Master Custodian of the WCIF for use in pricing the relevant type of financial instrument;
- Understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
- When prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement;
- Where a number of quotes for the same financial instrument have been obtained, how fair value has been determined using those quotes.

Significant valuation issues are reported to the icare Board's Risk, Compliance and Audit Committee.

Financial assets pledged as collateral

Scheme's financial assets pledged as collateral are $nil (2016: $nil), apart from cash held in margin accounts with the brokers/counter parties across various markets for exchange traded derivatives (refer Note 7) and for Over the Counter securities.

Margin accounts for exchange traded derivatives are held by the relevant exchange to keep the derivative position open and are adjusted daily based on the underlying derivatives marked to market. For over the counter securities the Scheme pays cash to the counter party where the trade documents stipulated that collateral is required to be paid. This collateral is adjusted as stipulated by the terms of the trade document based on underlying derivatives marked to market.

Where the Scheme holds collateral, this is held only in cash.

As outlined previously the Scheme closes out its positions prior to maturity or settles positions in cash rather than physical delivery.

Master netting or similar agreements

The Scheme enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. In certain circumstances – e.g. when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

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The ISDA agreements do not meet the criteria for offsetting in the statement of financial position. This is because the Scheme does not have any currently legally enforceable right to offset recognised amounts, as the right to offset is enforceable only on the occurrence of future events such as a default on the bank loans or other credit events.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

(i) Exposure:

Credit risk arises from the Scheme's investments when investment managers trade with various counterparties who are subsequently unable to meet their obligations. The Scheme's main credit risk concentration is spread between cash, indexed and interest bearing investments and over-the-counter, in-the-money derivatives.

Credit risk also arises from the Scheme's receivables.

Recoveries arise principally where a worker is injured in a motor vehicle accident and is not at fault. The majority of the costs of these claims are recovered from the third party motor vehicle insurers. The credit quality of these recoveries is considered high as these insurers are licensed by the Australian Prudential Regulation Authority, which imposes strict limits on capital adequacy of these insurers. The Scheme's consulting actuaries assess the amount of recovery potential for the Scheme.

(ii) Risk management objective, policies and processes:

Credit Guidelines ensure the Scheme has controlled levels of credit concentration. These guidelines are at a total Insurance Fund level, with further asset class specific restrictions in investment managers' mandates where applicable. In addition, where possible collateral arrangements may be implemented to reduce the Scheme's exposure.

The exposure is reported against set guidelines both from an individual managers' compliance and at a total Insurance Fund level. Reporting is provided by the Scheme's custodian and delivered to management for monitoring.

Credit risk arising on financial instruments is mitigated by investing primarily in rated instruments as determined by Standard's and Poor's, Moody's or Fitch. The Insurance Fund minimises its credit risk by monitoring counterparty creditworthiness.

Indexed and interest bearing investments

The majority of the indexed and interest bearing investments held by the Scheme are held with issuers rated investment grade by Standard and Poor's, Moody's or Fitch. The ratings assigned to the Scheme's indexed and interest bearing investments at the end of the reporting period were as follows:

	2017 $'000	2017 %	2016 $'000	2016 %
AAA/aaa	7,160,019	82	6,567,425	67
AA/Aa	689,687	8	1,647,146	17
A/A	139,601	2	775,052	8
BBB	309,441	3	565,252	6
BB	152,347	2	156,487	1
No Rating	249,432	3	147,630	1
Total	8,700,527	100	9,858,992	100

The Scheme's maximum credit risk exposure at balance date in relation to each class of recognised financial asset, other than derivative financial instruments, is the carrying amount of those assets as indicated in the Statement of Financial Position.

In relation to over the counter derivative financial instruments, credit risk arises from the potential failure of counterparties to meet their obligations under the contract or arrangement.

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Derivatives

The use of derivative financial instruments is governed by the Scheme's policies. The Scheme enters into derivative contracts for the purpose of gaining market and/or duration exposure or offsetting existing risk exposures.

The table below shows the fair value of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of a derivative is measured. The notional amounts are indicative of the exposure of the Scheme to movements in the instrument underlying the derivatives. The notional amounts do not represent the credit risk of the derivative positions that is equal to the fair value.

The fair value amounts reported in the Statement of Financial Position, and the amounts reported in the following tables are the net value of individual swap positions where there is the ability to settle the swaps on a net basis and the Nominal Insurer intends to settle on this basis.

	Assets $'000	Liabilities $'000	Notional amount $'000
2017			
Futures:			
Interest rate futures	43,140	-	838,385
Options:			
Options on Fixed Income	98,913	-	2,078,970
Options on index	13,870	-	1,588,983
Swaption	20,834	-	2,866,500
Forwards:			
Forward foreign exchange contracts	10,537	(4,044)	985,666
Swaps:			
Interest rate swaps	770	(17,613)	483,600
Inflation swaps	5,919	(14,363)	325,480
	193,983	**(36,020)**	**9,167,584**
2016			
Futures:			
Share price index futures	102	-	39,357
Interest rate futures	2,294	(785)	487,356
Options:			
Options on Fixed Income	37,920	-	1,879,000
Options on index	9,906	–	856,652
Swaption	64,830	–	792,400
Forwards:			
Forward foreign exchange contracts	6,130	(5,491)	670,451
Swaps:			
Interest rate swaps	1,332	(57,945)	366,500
Inflation swaps	8,523	(16,181)	213,100
Cross currency swaps	18,859	(24,844)	17,228
Credit default swaps	258	–	16,903
	150,154	**(105,246)**	**5,338,947**

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12. Involvement with unconsolidated structured entities

The Scheme does not have a controlling interest in any of the unlisted investment funds in which it invests. These unconsolidated structured entities are included under unit trusts in Note 7. The maximum exposure or loss is limited to the net market value of the investment strategy as at 30 June 2017. The net market value of the exposure will change on a daily basis throughout the period and in the subsequent periods will cease once the investments are disposed.

The investments of the Scheme are managed in accordance with the investment mandates with respective underlying investment managers. The investment decisions of the mandate are based on the analysis conducted by the investment manager. The return of the portfolio is exposed to the variability of the performance of the underlying management of these investments.

Investment Strategy	Net Market Value as at 30 June 2017 $'000	Exposure % as at 30 June 2017	Net Market Value as at 30 June 2016 $'000	Exposure % as at 30 June 2016
Equity	4,006,161	54%	-	-
Property	1,284,674	17%	1,228,881	44%
Alternatives	588,675	8%	686,569	24%
Emerging Markets	404,958	6%	377,188	13%
Cash	1,127,454	15%	536,232	19%
Total	**7,411,922**	**100%**	**2,828,870**	**100%**

13. Trade and other payables

	2017 $'000	2016 $'000
Service fee payable to icare	83,304	56,436
Investment purchases	32,250	238,295
Collateral from Brokers	148,902	107,022
Goods and Services Tax	21,252	32,938
Pay as you go tax payable	3,777	3,445
Other	48,932	18,195
Total payables	**338,417**	**456,331**

These amounts represent liabilities for services provided to the Scheme prior to the end of financial year, which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Purchases and sales of investments are recognised on trade date – the date on which the Scheme commits to purchase or sell the asset.

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14. Unearned premiums & unexpired risk liability

Unearned premium represents the amount of premium that has been received relating to periods of coverage in the next financial year.

	2017 $'000	2016 $'000
Unearned premium income	483,711	394,692
Unexpired risk liability	74,070	130,707
	557,781	**525,399**
(a) Unexpired risk liability		
Unexpired risk liability as at 1 July	130,707	88,363
Movement in the unexpired risk liability recognised in the Statement of Comprehensive Income	(56,637)	42,344
Unexpired risk liability as at 30 June	**74,070**	**130,707**
(b) Calculation of unexpired risk liability		
Unearned premium liability relating to contracts issued	483,711	394,692
Unearned premiums related to expected future premium adjustments	16,936	27,373
Total value of expected unearned premiums (A)	**500,647**	**422,065**
Central estimate of the present value of expected future cash flows arising from future claims on contracts issued	489,955	471,246
Risk Margin (80% Probability of Sufficiency)	84,762	81,526
(B)	**574,717**	**552,772**
Unexpired risk liability (B)-(A) (zero minimum)	**74,070**	**130,707**

The process for determining the overall risk margin, including the way in which diversification of risks has been allowed for is discussed in Note 15. As with outstanding claims, the overall risk margin is intended to achieve a 80% probability of adequacy.

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15. Outstanding claims

The outstanding claims liability is measured as the central estimate of the present value of expected future payments for claims incurred with an additional risk margin to allow for the inherent uncertainty in the central estimate. The discount rate represents a risk free rate derived from market yields on Commonwealth government bonds.

The Nominal Insurer only provides workers compensation insurance to those NSW employers who are not covered by self or specialised insurance arrangements. The wide geographic area, number of employers provided with insurance and variety of industries provided with insurance, reduces the Scheme's risk volatility. Managing insurance risk is part of the Scheme's governance and management philosophy through:

- Detailed review of consulting actuaries, bi-annual actuarial valuation projections and cost drivers to enable early detection of emerging issues and cost pressures;
- Actively monitoring claims and expense patterns to detect increasing expenditure and ensure it is facilitating return to work strategies;
- Designing premium formulas that reflect the cost of injuries in particular industries and for larger employers related to their actual claims costs to encourage employers to reduce injuries and facilitate injured workers to return to work;
- Design of benefits that provide incentives to injured workers to work with the Scheme and employers to encourage a return to work;
- Partnering with regulators including the State Insurance Regulatory Authority (SIRA) to reduce injury rates and detect any fraudulent activities;
- Designing remuneration for Scheme Agents that encourages them to achieve Scheme objectives;
- Investment allocation strategies that manage investment risks (refer Note 7 and 11);
- Actively monitoring and projecting the Scheme's cashflow to ensure premiums are paid and injured worker entitlements are provided in a timely manner.

The nature of the Scheme's insurance operations including the requirement of all employers in NSW to have a policy, the wide geographic/industry spread of risks, the level of Scheme Assets and the ability to amend future premiums, has resulted in the Scheme concluding that reinsurance of Scheme liabilities is not currently appropriate.

Accordingly they are not regarded as a financial instrument under Australian Accounting Standards and are not included in financial assets.

	2017 $'000	2016 $'000
(a) Expected future gross claims payments (undiscounted)	**20,359,177**	**16,855,663**
Discount to present value	(6,032,513)	(3,475,787)
Liability for outstanding claims	14,326,664	13,379,877
(b) Expected future actuarial assessment of recoveries (undiscounted)	**338,447**	**395,078**
Discount to present value	(32,610)	(29,977)
Discounted actuarial assessment of recoveries	305,837	365,102
Net outstanding claims per actuarial report	**14,020,827**	**13,014,775**

The overall outstanding claims liability of the Scheme is calculated by the consulting actuaries using a range of recognised, aggregate actuarial methods, appropriate for the characteristics of the various types of claim liability under scrutiny. The liability for the outstanding claims is estimated as the inflated and discounted values of the expected future payments, reflecting the fact that these payments will be spread over future years. The expected future payments are estimated on the basis of the ultimate cost of settling claims (including claims handling expenses) which is affected by factors arising during the period to settlement.

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The provision for claims handling expenses is calculated as a percentage of the gross outstanding claims central estimate to recognise the ultimate expense of managing outstanding claims until they are finalised and closed. The percentage for claims handling expenses is 9.5 per cent (2016 9.7 per cent).

There is inherent uncertainty in any estimate of outstanding claims liabilities. Whilst the consulting actuaries have employed techniques and assumptions that are appropriate, it should be recognised that future claim development is likely to deviate, perhaps materially, from their estimates. Examples of this uncertainty include but are not limited to the likelihood of injured workers lodging claims under the Scheme, the amount of compensation paid and the attitudes of claimants towards settlement of their claims and uncertainty surrounding the impact of the various reforms to Scheme design and operation which have occurred.

Significant reforms to workers compensation legislation gained assent on 27 June 2012 with some reforms being effective from when the Bill was tabled while others are effective from later dates. The *Workers Compensation Amendment Act 2015* gained assent on 1 September 2015 to wind back some of the reforms that were introduced in 2012 as well as introduce other incentives to assist return to work.

The key changes in the 2015 reforms package are summarised below.

1. Extensions of benefits on claims made on or after 1 October 2012. (For claims made before 1 October 2012, these extensions were already in place from the 2014 regulations)

- Entitlement to medical benefits for life for all workers with Whole Person Impairment (WPI) assessed between 21% and 30%;
- Access to medical aid payments for life for all workers;
- Restored entitlement for weekly payments until one year after retirement age (noting that claims with WPI between 0% and 20% are still subject to a five-year cap under the 2012 reforms);
- Continued eligibility for weekly benefits for all workers until a disputed work capacity assessment and/or decision is resolved.

2. Additional benefits

- Removal of the requirement for injured workers with work capacity and a WPI between 21% and 30% to work at least 15 hours per week beyond 130 weeks;
- A minimum weekly payment of $788.32 (as at August 2015) for those injured workers with more than 30% WPI. The minimum amount is to be indexed half yearly on each 1 April and 1 October in accordance with CPI;
- Extension of the 12 month limitation period on medical benefits to two years for claims with a WPI up to 10%; and five years for claims with a WPI from 11% to 20%;
- Increase in the amount of permanent impairment (Section 66) compensation available to injured workers (above 10% WPI) injured on or after 5 August 2015. Compensation is to be indexed annually on each 1 July in line with CPI;
- A job-ready payment of up to $1,000 for injured workers who return to work with a new employer;
- An education or re-training payment of up to $8,000 for injured workers with more than 20% WPI who have been on weekly benefits for more than 78 weeks;
- Increase in the maximum amount payable for funeral expenses to $15,000 applicable to deaths on or after 5 August 2015;
- Increased the lump sum payment for death to $750,000 for deaths on or after 5 August 2015;
- Payments to legal practitioners for advice provided to injured workers and insurers in relation to the review of work capacity assessments.

notes to the financial statements

for the year ended 30 June 2017

3. Impact of Section 39 on worker's insurance claims liabilities in 2016/17

The Workers Assistance Program (WAP) includes an assessment of each claimant's Whole Person Impairment (WPI) and is intended to assist claimants return to work or other discontinuance outcomes.

To date 90% of the pre 2013 claims progressing towards the 260 week cap have had their WPI reassessed. This is providing evidence around the actual proportion of these claims above the 20% WPI cap and hence exempt from the 5 year limit on weekly payments.

The June 2017 valuation assumes 16% of claimants previously thought to be below the 20% WPI threshold will have their WPI's reassessed to above 20%. The June 2016 valuation essentially assumed that none of these claims would be reassessed to be above the 20% WPI due to lack of evidence to support such an assumption.

Assuming 16% of the pre 2013 claims potentially impacted by section 39 will remain on benefits potentially until retirement has added approximately $821m to the Nominal Insurer outstanding claims liability excluding CHE and a Risk Margin. Including the CHE and Risk Margin increases this to $1,040m. This adjustment was picked up as part of the December 2016 liability valuation.

4. Uncertainty

As noted above, the Scheme has not allowed for certain aspects of the 2015 reforms due to the level of uncertainty associated with how they would be applied in practice. The Scheme intends to allow for these aspects in future valuations as more guidance or actual experience becomes available. For the aspects of the 2015 reforms the Scheme has allowed for, the Scheme have estimated the impact on a central estimate basis, based on the information available to us at the time. It is important to note that actual experience may prove to be significantly different from these allowances. Key uncertainties include:

- Behavioural impacts – The reforms could lead to significant behavioural changes in claimants' pursuit of particular benefit types. It is not possible to incorporate these impacts with accuracy and hence no allowance for behavioural impacts has been made;
- Honeymoon and slippage – Following most legislative reforms, there is usually a "honeymoon" period, where experience remains favourable over the short term as scheme participants take time to understand how the reforms work. However, as they have a better understanding of how the new reforms work, they will begin to fully utilise scheme benefits and experience may turn. We have not allowed for any impact of honeymoon and slippage in our estimate;
- Effectiveness of implementation – The ultimate financial impact of the reforms will depend heavily on how effectively the reforms are implemented. A particular risk is if Whole Person Impairment outcomes differ from that assumed;
- Model risk – there is always the risk that a model will not capture important aspects of reality. As only a short period of time has elapsed since the reforms and as yet many affected claimants have not been contacted to advise them of the changes to their benefits, there is little post-reform experience to analyse.

Accordingly the adopted probability of adequacy for the Scheme for 2017 is 80 per cent (2016 80 per cent). The consulting actuary has assessed this requires a risk margin of 15.6 per cent (2016 15.6 per cent) or $1.89 billion (2016 $1.76 billion).

In arriving at this decision on the probability of adequacy required the legislative provisions to set and retrospectively adjust premiums, and employers being required to fund any deficit as part of future premiums were taken into account.

Based on the consulting actuaries assessment of the Scheme's exposure to asbestos claims, an explicit provision of $127 million (2016: $113 million) for such claims has been included in the overall outstanding claims liability.

notes to the financial statements

for the year ended 30 June 2017

Movement in claim liabilities and recoveries

	2017 $'000	2016 $'000
Claims liabilities		
Opening balance	13,379,877	12,156,699
Adjustment arising from changes in:		
• Actuarial assumptions	585,440	723,729
• Discount/inflation rates	85,081	485,208
• Risk margins	-	110,765
Expected expenses on claim payments	(139,172)	(173,422)
Release of risk margin on claims payments	(250,708)	(246,721)
Claims incurred in current year	2,547,765	2,121,747
Claims payments	(1,881,619)	(1,798,128)
Claims liabilities 30 June	**14,326,664**	**13,379,877**
Recoveries		
Opening balance	365,102	370,759
Adjustment arising from changes in:		
• Actuarial assumptions	(50,972)	33,208
• Discount/inflation rates	(1,177)	11,126
• Risk Margins	-	(2,420)
Release of risk margin on recoveries received	(11,028)	(14,038)
Recoveries incurred in current year	74,106	73,587
Recoveries received (excluding tax recoveries)	(46,506)	(80,178)
Tax recoveries received	(23,688)	(26,942)
Recoveries receivable 30 June	**305,837**	**365,102**
Net outstanding claims per actuarial report	**14,020,827**	**13,014,775**

Recoveries relate principally to amounts that the Scheme Actuaries estimate can be recovered from other insurers for workers compensation injuries. These recoveries relate to amounts already incurred on a claim or amounts estimated to be recovered from the estimated claim liabilities.

notes to the financial statements

for the year ended 30 June 2017

Claims development

The Scheme provides ongoing weekly benefits to injured workers who are unable to return to pre-injury levels of work up to retirement age, (or if injured after retirement age one year after the date of claim). This results in a significant portion of Scheme liabilities relating to claim liabilities of past years that will be settled in future years.

Under the 2012 reforms the maximum number of years an injured worker who is not seriously injured can remain in weekly benefits is 5 years, with medical benefits to continue for a year after the weekly benefits end. The 2015 reforms changed the medical benefit cap from 1 year to 2 or 5 years depending on the severity of the injury.

The following table shows the development of undiscounted outstanding claims relative to the ultimate expected claims for the most recent accident years for the Nominal Insurer.

Accident year	2006–2011 $'m	2012 $'m	2013 $'m	2014 $'m	2015 $m	2016 $'m	2017 $'m	Total $'m
Estimate of ultimate claims cost								
At end of accident year	14,847	3,361	3,325	2,610	2,506	2,482	2,515	
One year later	13,021	3,278	2,368	2,338	2,409	2,357		
Two years later	12,297	2,720	2,233	2,345	2,075			
Three years later	11,477	2,337	2,131	2,129				
Four years later	10,284	2,222	1,984					
Five years later	9,867	2,033						
Six years later	9,166							
Seven years later	6,460							
Eight years later	4,311							
Nine years later	2,120							
Ten years and later	3,898							
Current estimate of cumulative claims cost	**12,465**	**2,033**	**1,984**	**2,129**	**2,075**	**2,357**	**2,515**	**25,558**
Cumulative payments								**13,628**
Outstanding claims – undiscounted								**11,930**
Discount								**(3,574)**
2005 and prior								**2,699**
Claims handling expenses								1,074
Outstanding claims excluding risk margin								**12,129**
Risk Margin								1,892
Final Outstanding claims including risk margin								**14,021**

notes to the financial statements

for the year ended 30 June 2017

Claims liability maturity

	2017 $'000	2016 $'000
Outstanding claims net of recoveries maturing:		
Within 1 year	1,924,181	1,834,073
2 to 5 years	4,853,294	4,722,625
More than 5 years	7,243,352	6,458,077
	14,020,827	**13,014,775**

Core claims liability variables

The core variables that drive the Schemes liabilities are the inflation rate for benefits and the discount rate of these liabilities to reflect the earnings on Scheme investments. Income support benefits to injured workers are indexed half yearly while other payments such as medical costs are considered to increase at least in line with inflation.

Weekly benefits are based on workers average weekly earnings. For claims incurred prior to 1 October 2012 weekly benefits are indexed to the Labour Price Index (LPI), while claims incurred after that date are indexed to the Consumer Price Index (CPI). Other Scheme costs continue to align with movements in the LPI.

The following average inflation, and discount rates were used in the measurement of outstanding claims:

	2017 %p.a.	2016 %p.a
For the first succeeding year		
Inflation rate		
LPI	2.73	2.50
CPI	2.01	1.75
Discount rate	1.67	1.63
For subsequent years		
Inflation rate		
LPI	1.70-3.70	1.00-3.50
CPI	0.70-2.70	0.00-2.50
Discount rate	1.82-5.50	1.49-3.35

The weighted average discounted expected term from the balance date to settlement of the outstanding claims is estimated to be 8.4 years (2016: 8.3 years).

notes to the financial statements

for the year ended 30 June 2017

Sensitivity analysis

The impact of changes in key variables is summarised in the table below. Sensitivity analysis is conducted by the consulting actuaries on each variable whilst holding all other variables constant.

		2017 Impact on All Durations		2017 Impact on next 5 years		2016 Impact on next 5 years	
Variable	Movement in Variable %	Profit/ (Loss) $'000	Liabilities $'000	Profit/ (Loss) $'000	Liabilities $'000	Profit/ (Loss) $'000	Liabilities $'000
Inflation Rate	+1	(1,219,947)	1,219,947	(619,134)	619,134	(564,793)	564,793
	-1	1,031,551	(1,031,551)	588,836	(588,836)	536,442	(536,442)
Discount Rate	+1	1,027,106	(1,027,106)	586,936	(586,936)	568,784	(568,784)
	-1	(1,232,745)	1,232,745	(628,824)	628,824	(612,422)	612,422

16. Restoration provisions

	2017 $'000	2016 $'000
Restoration provision	118	118
	118	**118**

A restoration provision is recognised for the estimate of future payments for restoration upon the termination of the leases of current office premises. The effect of discounting is immaterial.

	2017 $'000	2016 $'000
Movement in restoration provisions		
Opening balance at 1 July	118	-
Amount provided during year	-	118
Amount used during year	-	-
Closing balance at 30 June	**118**	**118**

notes to the financial statements

for the year ended 30 June 2017

17. Commitments

At 30 June 2017 the Scheme had no lease commitments.

	2017 $'000	2016 $'000
Within 1 year	-	965
2 to 5 years	-	-
More than 5 years	-	-
	-	**965**

As at the 30 June 2017 the Scheme was required to contribute $245.8 million to the Workers Compensation Operational Fund to fund the State Insurance Regulatory Authority and Safework NSW. (2016: $241 million) in monthly installments by 30th June 2018.

As at the 30 June 2017 the Scheme was required to contribute $48.2 million (2016: $86 million) to the Workers Compensation Dust Diseases Authority in monthly installments by 30th June 2018.

As at the 30 June 2017 the Scheme was required to contribute $7.8 million (2016: $8.2 million) to the NSW Department of Primary Industries for the Mine Safety Levy in 4 equal quarterly installments by 30th June 2018.

18. Security deposits and bank guarantees

Since 30 June 2009, large employers may apply to have their workers compensation premium calculated under an alternative premium method, called the Retro-Paid Loss Premium Method (RPL). At 30 June 2016 the RPL methodology was amended and renamed Loss Prevention and Recovery (LPR). This methodology change gave employer groups the option of providing security or the payment of a Renewal Premium adjustment (RPA).

Employers are qualified to participate in the Schemes providing they meet specified work health and safety, injury management and financial criteria. Under both methodologies employers pay a deposit premium for the insured period, with subsequent adjustments made over the next three to four years to reflect the actual cost of claims incurred plus a contribution to those costs for very high value claims that are shared across all employers in the group.

Under section 172A of the *Workers Compensation Act 1987*, the Scheme administers security deposits, bank guarantees and securities lodged by employers who elect to participate in the RPL Premium Method or chose the security option of the LPR Premium method.

As at 30 June 2017, the Scheme held deposits of $67 million (2016: $80 million) and bank guarantees of $722 million (2016: $867 million). These deposits are held in trust for payment of their workers compensation premium liability.

Earnings on funds deposited with the Scheme for this purpose are paid directly to the employer group that lodged the Security Deposit provided that the security held meets the security requirements of the employer group.

notes to the financial statements

for the year ended 30 June 2017

19. Capital management

Capital management is an integral part of icare's risk management framework. One of the key objectives of the Workers Insurance Scheme is to have sufficient capital to meet its obligations to its customers, even under adverse conditions.

The Board of icare has set a Capital Management Policy which defines a Target Capital Ratio and Target Operating Zone for the Scheme.

To determine the Scheme's Target Capital Ratio and Target operating Zone, consideration was given to the following:

- The unique nature of the business from both various perspectives- internal (financial and operational) and external (economic and political)
- The liabilities of the Scheme are not included in the NSW Government's balance sheet and there is no explicit Government guarantee to cover any funding shortfall
- The Scheme's strategic objectives and the risks of not achieving them
- The regulatory requirements of the Australian Prudential Regulation Authority (APRA), consistency with the insurance industry and best practice

Under this policy the Scheme will be managed towards holding excess capital above the Minimum Capital Requirement within a defined range as set out in the Target Capital Ratio Policy.

The Board has determined that the target operating zone for the Scheme is between 120–140%. This means that the Scheme's Policy Capital Ratio defined as the value of the Scheme's assets to liabilities where the liabilities include a risk margin aimed at a 75% Probability of Adequacy (PoA) should be between 120–140%. The actual funding ratio at 30 June 2017 at the 75% PoA level was 119%.

The Scheme's liabilities reported in these financial statements are at an 80% PoA.

The Capital Management policy details actions required where the Policy Capital Ratio falls outside of the target operating zone.

The Capital Management Framework is reviewed annually by Management or as directed by the Board or Risk Compliance and Audit Committee (RCAC) of the Board. Any recommendations for change are endorsed by the RCAC and approved by the Board.

End of audited financial statements

sporting injuries insurance

sporting injuries insurance financial statements

for the year ended 30 June 2017

Notes to the financial statements

SPORTING INJURIES SCHEME

Actuarial Certificate
Outstanding claims liabilities at 30 June 2017

PricewaterhouseCoopers Consulting (Australia) Pty Ltd (PwC) has been contracted by Insurance & Care NSW (icare) acting for the Sporting Injuries Compensation Authority (SICA) to make estimates of the outstanding claims liabilities as at 30 June 2017 of the Sporting Injuries Scheme.

Data

PwC have relied on data supplied by icare without audit or independent verification. We did, however, review this information for reasonableness and internal consistency, where possible. The accuracy of our results is dependent upon the accuracy and completeness of the underlying data.

Basis of Our Estimates

The Sporting Injuries Scheme consists of the Sporting Injuries Insurance Scheme ("Main Scheme") and the Supplementary Sporting Injuries Benefits Scheme ("Supplementary Scheme"). For both schemes, we have made central estimates of the outstanding claims liabilities, meaning that our assumptions have been selected to yield estimates that are not knowingly above or below the ultimate liabilities. Our estimates include allowances for future investment returns and claims handling expenses.

Our recommended outstanding claims liabilities provision for the Main Scheme consists of the central estimate of the outstanding claims liabilities and risk margins for a 75% probability of adequacy.

Our recommended outstanding claims liabilities provision for the Supplementary Scheme consists of only the central estimate of the outstanding claims liabilities. We have not included any allowance for a risk margin for the Supplementary Scheme.

Valuation Results

The PwC estimated outstanding claims liabilities provision as at 30 June 2017 for the Main Scheme is $2.12 million. For the Supplementary Scheme, the estimated outstanding claims liabilities as at 30 June 2017 is $0.28 million.

The following table summarises the outstanding claims liabilities.

	Main Scheme	Supplementary Scheme	Total
	$m	$m	$m
Central estimate	1,254	234	1,488
Expenses	251	47	298
Risk margin	618	Not Included	618
Outstanding claims liability	2,123	281	2,404

It is a decision for the SICA as to the amount adopted in the accounts.

Uncertainty

There is a limitation upon the accuracy of the estimates in this certificate in that there is an inherent uncertainty in any estimate of insurance liabilities. This is due to the fact that the ultimate liability is subject to the outcome of events yet to occur. These include, but are not limited to, the mortality rate and participants' injury severity improvements within the scheme, the number of participants accepted into the scheme, price adjustments by service providers and future levels of care and support provided to participants.

In our judgement, we have employed techniques and assumptions that are appropriate, and we believe the conclusions presented herein are reasonable, given the information currently available.

Valuation Report

Full details of data, methodology, assumptions and results are set out in our valuation report dated 31 August 2017.

Relevant Standards

Our estimates and reports were prepared, to the best of our knowledge, to be compliant with Australian Accounting Standard AASB1023 for the Main Scheme, Australian Accounting Standard AASB137 for the Supplementary Scheme and the Institute of Actuaries of Australia's Professional Standard 300, which relates to estimation of outstanding claims liabilities.

Andrew Smith
FIAA
31 August 2017

Gavin Moore
FIAA
31 August 2017

statement by the chairman and chief executive officer

for the year ended 30 June 2017

Sporting Injuries Compensation Authority

Certificate under Section 41C(1B) and 41C(1C) of the *Public Finance and Audit Act 1983* and Clause 7 of the *Public Finance and Audit Regulation 2015.*

In the opinion of the Board of Directors:

1. the financial statements of Sporting Injuries Compensation Authority have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2015* and the NSW Treasurer's Directions. They have also been prepared in accordance with Australian Accounting Standards (which include Australian Accounting Interpretations) and other authoritative pronouncements of the Australian Accounting Standards Board.
2. the financial statements for the year ended 30 June 2017 exhibit a true and fair view of the position and transactions of the Sporting Injuries Compensation Authority and;
3. the directors are not aware of any circumstances as at the date of this certificate which would render any particulars included in the financial statements misleading or inaccurate.

Signed on behalf of the Board of Directors.

Michael Carapiet
Chairman
Insurance and Care NSW
25 September 2017

Vivek Bhatia
Chief Executive Officer
Sporting Injuries Compensation Authority &
Insurance and Care NSW
25 September 2017

INDEPENDENT AUDITOR'S REPORT

Sporting Injuries Compensation Authority

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of the Sporting Injuries Compensation Authority (the Authority), which comprise the statement of financial position as at 30 June 2017, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information.

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 30 June 2017, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015.

My opinion should be read in conjunction with the rest of this report.

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the Authority in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies
- precluding the Auditor-General from providing non-audit services.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

The Chief Executive's Responsibility for the Financial Statements

The Chief Executive Officer is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the PF&A Act, and for such internal control as the Chief Executive Officer determines is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Executive Officer must assess the Authority's ability to continue as a going concern except where the Authority will be dissolved by an Act of Parliament or otherwise cease operations. The assessment must disclose, as applicable, matters related to going concern and the appropriateness of using the going concern basis of accounting.

Auditor's Responsibility for the Audit of the Financial Statements

My objectives are to:

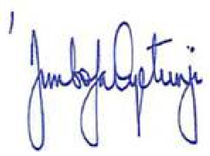
- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf. The description forms part of my auditor's report.

My opinion does *not* provide assurance:

- that the Authority carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.



A Oyetunji
Director, Financial Audit Services

29 September 2017
SYDNEY

statement of comprehensive income
for the year ended 30 June 2017

	Notes	2017 $'000	10 months 2016[1] $'000
Earned premium	2	786	643
Net claims incurred	5	(448)	(370)
Unexpired risk liability expense	13	(28)	-
Net premiums less claims		**310**	**273**
Levies	3	43	47
Investment Revenue	4	163	126
Service fees	6	(284)	(324)
Operating expenses	7	(102)	(64)
Net result		**130**	**58**
Other comprehensive income			
Items that will not be reclassified to net result		-	-
Total Other comprehensive income		**-**	**-**
TOTAL COMPREHENSIVE INCOME		**130**	**58**

1 Refer to Note 1(a) for 10 month period.

The accompanying notes form part of these financial statements.

statement of financial position

as at 30 June 2017

	Notes	2017 $'000	2016 $'000
ASSETS			
Cash and cash equivalents	8	2,523	2,280
Investments	10	1,984	2,066
Receivables	9	274	268
Total Assets		**4,781**	**4,614**
LIABILITIES			
Payables	12	243	229
Unearned premium reserve	13	399	426
Unexpired risk	13	28	-
Provision for outstanding claims	14	2,123	2,101
Total Liabilities		**2,793**	**2,756**
Net Assets		**1,988**	**1,858**
EQUITY			
Accumulated funds		1,988	1,858
Total Equity		**1,988**	**1,858**

The accompanying notes form part of these financial statements.

statement of changes in equity

for the year ended 30 June 2017

	Accumulated funds $'000
Balance at 1 July 2016	1,858
Net result for the year	130
Other comprehensive income	-
Total other comprehensive income	**-**
Total comprehensive income for the year	**130**
Balance at 30 June 2017	**1,988**
Balance at 1 September 2015	-
Net result for the period	58
Other comprehensive income	-
Total other comprehensive income	**-**
Total comprehensive income for the period	**58**
Transactions with owners in their capacity as owners	
Increase in net assets from equity transfer	1,800
Balance at 30 June 2016	**1,858**

The accompanying notes form part of these financial statements.

statement of cash flows

for the year ended 30 June 2017

	Notes	2017 $'000	10 months 2016[1] $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Premiums received		787	740
Claims paid		(426)	(476)
Net Cash Flow from Net premiums less claims		**361**	**264**
Receipts			
Proceeds from sale of Investments		107	3,833
Levies received		21	47
Interest received		141	23
Other receipts		-	39
Total Receipts Excluding Scheme Activities		**269**	**3,942**
Payments			
Purchases of Investments		-	(3,328)
Service fees		(340)	(217)
Other payments		(47)	(50)
Total Payments Excluding Scheme Activities		**(387)**	**(3,595)**
NET CASH FLOWS FROM OPERATING ACTIVITIES	8	**243**	**611**
Opening cash and cash equivalents		2,280	-
Cash transferred in as a result of administrative restructure		-	1,669
CLOSING CASH AND CASH EQUIVALENTS	8	**2,523**	**2,280**

1 Refer to Note 1(a) for 10 month period.

The accompanying notes form part of these financial statements.

notes to the financial statements

for the year ended 30 June 2017

1. Summary of significant accounting policies

(a) Reporting entity

Sporting Injuries Compensation Authority (the Authority) is a NSW government entity. The Authority is a not-for-profit entity (as profit is not its principal objective) and it has no cash generating units. The reporting entity is consolidated as part of the NSW Total State Sector Accounts.

icare provides services at arms-length to the Authority.

The Sporting Injuries Compensation Authority was established from 1 September 2015 in accordance with the *State Insurance and Care Governance Act 2015*. As a result the 2016 balances in these financial statements only cover a 10 month period to 30 June 2016.These financial statements for the year ended 30 June 2017 have been authorised for issue by the Chairman of the Board and the Chief Executive Officer on behalf of the board on 25 September 2017.

(b) Basis of preparation

These financial statements are general purpose financial statements which have been prepared using the accrual basis of accounting and are in accordance with:

- applicable Australian Accounting Standards (which include Australian Accounting Interpretations)
- the requirements of the *Public Finance and Audit Act 1983* and the *Public Finance and Audit Regulation 2015*
- NSW Treasurer's directions.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future years affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 11 Financial instruments
- Note 14 Liabilities – Provision for outstanding claims.

These financial statements have been presented on a liquidity basis following receipt of an exemption from TC17-04 by NSW Treasury that statements are presented on a current and non-current basis.

All amounts are rounded to the nearest one thousand dollars and are expressed in Australian currency which is the functional currency of the reporting entity. Tables may not add in all instances due to rounding.

notes to the financial statements

for the year ended 30 June 2017

(c) Statement of compliance

The financial statements and notes comply with Australian Accounting Standards, which include Australian Accounting Interpretations.

(d) Accounting for the Goods and Services Tax (GST)

Income, expenses and assets are recognised net of the amount of associated GST, except that the:

- amount of GST incurred by Sporting Injuries Compensation Authority as a purchaser that is not recovered from the Australian Taxation Office is recognised as part of an asset's cost of acquisition or as part of an item of expense and
- receivables and payables are stated with the amount of GST included.

Cash flows are included in the Statement of cash flows on a gross basis. However, the GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

(e) Changes in accounting policy, including new or revised Australian Accounting Standards

The following new Australian Accounting Standards have not been applied and are not yet effective:

- AASB 9 *Financial Instruments*
- AASB 15, AASB 2014-5, AASB 2015-8 and AASB 2016-3 regarding Revenue from Contracts with Customers
- AASB 16 regarding leases
- AASB 1058 *Income of Not-for-profit Entities*
- AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107
- AASB 2016-6 Amendments to Australian Accounting Standards – Applying AASB 9 with AASB 4 Insurance Contracts
- AASB 2016-7 Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities
- AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities
- AASB 2017-1 Amendments to Australian Accounting Standards – Transfer of Investment Property, Annual Improvements 2014–2016 Cycle and Other Amendments
- AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014–2016 Cycle.

AASB 9 Financial Instruments and its associated amending standards specify new recognition and measurement requirements for financial assets and financial liabilities within the scope of AASB 139 Financial Instruments: Recognition and Measurement.

The Authority already values its financial assets and financial liabilities at fair value through profit or loss. Therefore when applied, the only material impact of these standards will be on the presentation of the financial statements and disclosures in the notes.

The proposed amendments to AASB 4 Insurance Contracts specify the financial reporting for insurance contracts. The changes will not impact the financial statements based on the current proposal. However, we will conduct an impact assessment of implementing the standard before 1 January 2018.

The remaining standards are concerned with disclosures and will have no direct impact on the Authority's financial results.

notes to the financial statements

for the year ended 30 June 2017

2. Earned premium

	2017 $'000	10 months 2016 $'000
Gross written premium	759	751
Unearned income adjustment	27	(108)
Earned Premium	**786**	**643**

Premiums of the Sporting Injuries Insurance Scheme comprise amounts charged to sporting organisations declared to be members of the Scheme. Premiums are assessed on an estimate of the number of participants expected to register for the sporting year and on completion of that year adjustments are made in accordance with actual registrations.

Premium income is treated as earned from the date of attachment of risk. The earned portion of premiums received or receivable relating to the financial year is recognised as income.

3. Levies

	2017 $'000	10 months 2016 $'000
Injury Prevention Levies	43	47
	43	**47**

During 2002/03 the Parliament approved a major amendment to the *Sporting Injuries Insurance Act 1978* which enables declared sporting organisations under the Act to apply for, and be granted an insurance exemption for a private scheme rather than participate in the Sporting Injuries Insurance Scheme.

Levy income is treated as income from the date the levy year commences. The portion of levies received or receivable relating to the financial year is recognised as income.

4. Investment revenue

	2017 $'000	10 months 2016 $'000
TCorp IM Cash fund & bank	26	23
TCorp Fixed variable interest discrete portfolio	83	107
Interest Income other	29	25
Realised gains/(losses) other	7	-
Realised gains/(losses) TCorp	-	(13)
Unrealised gains/(losses) TCorp	18	(16)
	163	**126**

Investment revenue includes interest income and net realised and unrealised gains or losses from changes in the fair value of investments. Interest revenue is recognised using the effective interest method as set out in *AASB 139 Financial Instruments: Recognition and Measurement*.

notes to the financial statements

for the year ended 30 June 2017

5. Net claims incurred

	2017 $'000	10 months 2016 $'000
Claims paid	426	546
Finance cost	21	36
Movement in claims liabilities	1	(212)
	448	**370**

	2017			2016
	Current Year $'000	Prior Years $'000	Total $'000	Total $'000
Direct business				
Gross claims incurred and related expenses – undiscounted	1,144	(678)	466	352
Discount and discount movement – gross claims incurred	(43)	25	(18)	18
Net claims incurred	**1,101**	**(653)**	**448**	**370**

Net claims incurred include claims paid and the movement in the provision for outstanding claims liabilities. The provision for outstanding claims liabilities includes claims incurred and not yet paid, incurred but not yet reported and allowances for the costs of claims administration. An assessment of outstanding claims by independent actuarial consultants is undertaken to determine the net central estimate of this liability.

The Sporting Injuries Insurance Scheme in accordance with AASB 1023: *General Insurance Contracts* has a risk margin applied to the net central estimate to bring the liability for this Scheme up to an acceptable level of probability of adequacy of 75%. The 75% level of probability of adequacy is in compliance with the Australian Prudential Regulation Authority's prudential standard GPS210 for commercial insurers.

Current year claims relate to risks borne in the current reporting year. Prior year claims relate to an assessment of the risks borne in all previous reporting years.

notes to the financial statements

for the year ended 30 June 2017

6. Service fees

	2017 $'000	10 months 2016 $'000
Service fees	**284**	**324**

In accordance with the *State Insurance and Care Governance Act 2015* from 1 September 2015 the Authority receives services from Insurance and Care NSW (icare). Under the arrangement some of the Authority's costs are initially incurred by icare. These services include the provision of staff, claims handling, facilities, general business expenses and governance services.

Included in the 2015–16 Service fee paid to icare was $15,000 for the audit of the financial statements performed by the Audit Office of NSW.

The Authority's key management personnel are the Board of Directors of icare, the Chief Executive Officer of icare and their direct reports. All transactions with these key management personnel are at arms length and are included in the service fee paid to icare for those personnel remunerated by icare.

7. Operating expenses

	2017 $'000	10 months 2016 $'000
Investment management fees	79	62
Other	1	2
Audit fees for audit of financial statements	22	-
	102	**64**

8. Assets – Cash and cash equivalents

	2017 $'000	2016 $'000
Cash at bank and on hand	374	75
Short term deposits		
• Cash Other	1,089	1,058
• TCorp IM Cash fund	1,060	1,147
	2,523	**2,280**

For the purposes of the Statement of Cash Flows, cash and cash equivalents includes cash at bank and on hand, term deposits with a maturity of less than 3 months and highly liquid investments.

notes to the financial statements

for the year ended 30 June 2017

Cash and cash equivalent assets recognised in the Statement of Financial Position are reconciled at the end of the financial year to the Statement of Cash Flows as follows:

	2017 $'000	2016 $'000
Cash and cash equivalent assets (per Statement of financial position)	2,523	2,280
Closing cash and cash equivalents (per Statement of Cash Flows)	**2,523**	**2,280**

Refer to Note 11 for further information regarding credit risk, liquidity risk and market risk arising from financial instruments.

Reconciliation of Net Cash Flows from Operating Activities to Net Result

	2017 $'000	2016 $'000
Net cashflows from operating activities	243	611
Net investment sales	(105)	(505)
Net cashflows from investment operating activities	23	101
Change in assets and liabilities		
Increase/(Decrease) in receivables	6	(27)
Decrease/(Increase) in payables	(14)	(190)
Decrease/(Increase) in unearned premium income	27	(108)
(Increase) in unexpired risk	(28)	-
Decrease/(Increase) in provisions for outstanding claims	(22)	176
Net result	**130**	**58**

notes to the financial statements

for the year ended 30 June 2017

9. Assets – Receivables

	2017 $'000	2016 $'000
Premiums receivable	232	260
Injury prevention levies	24	-
Investments receivable	2	4
Interest	2	2
GST Receivable	-	2
Other	14	-
Total Receivables	**274**	**268**

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are recognised initially at fair value, usually based on the transaction costs or face value. Subsequent measurement is at amortised cost using the effective interest methods, less an allowance for any impairment of receivables. Any changes are recognised in the net result for the year when impaired, derecognised or through the amortisation process. Short term receivables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

Details regarding credit risk, liquidity risk and market risk, including financial assets that are either past due or impaired, are disclosed in Note 11.

10. Assets – Investments

	2017 $'000	2016 $'000
NSW Treasury Corporation Facilities	1,984	2,066
Total financial assets at fair value	**1,984**	**2,066**

All investments are held to fund outstanding claims liabilities.

Details regarding credit risk, liquidity risk, and market risk on investments are disclosed in Note 11.

Investments are held for trading.

notes to the financial statements

for the year ended 30 June 2017

11. Financial instruments

The Authority's principal financial instruments are outlined below. These financial instruments arise directly from the Authority's operations and are required to finance these operations. The Authority does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Authority's main risks arising from financial instruments are outlined below, together with the Authority's objectives, policies and processes for measuring and managing risk. Further quantitative and qualitative disclosures are included throughout these financial statements.

In accordance with the *State Insurance and Care Governance Act 2015* the Board of Insurance and Care NSW has overall responsibility for the establishment and oversight of risk management and reviews and agrees policies for managing each of these risks. Risk management policies are established to identify and analyse the risks faced by the Authority, to set risk limits and controls and to monitor risk. Compliance with policies is reviewed by subcommittee's of the Board on a continual basis.

In May 2015, NSW Treasury Corporation (TCorp) was appointed to provide investment management and administration services to icare managed investment funds. TCorp are engaged through a Master Financial Services Agreement (MFSA) which details, amongst other things, the service and reporting provisions. Service levels and compliance to the MFSA are monitored through icare's Finance and Services team.

(a) Financial instrument categories

	Note	Category	2017 $'000	2016 $'000
Financial Assets				
Cash and cash equivalents	8	N/A	2,523	2,280
Receivables[1]	9	Loans and receivables at amortised cost	250	266
Investments	10	At fair value through profit or loss	1,984	2,066
Financial Liabilities				
Payables[2]	12	Financial liabilities measured at amortised cost	181	212

1 Excludes statutory receivables and prepayments (i.e. not within the scope of AASB 7)

2 Excludes statutory payables and unearned revenue (i.e. not within scope of AASB 7)

(b) Credit risk

Credit risk arises where there is the possibility of the Authority's debtors defaulting on their contractual obligations, resulting in a financial loss to the Authority. The maximum exposure to credit risk at balance date is generally represented by the carrying amount of the financial assets as indicated in the Statement of Financial Position (net of any allowance for impairment).

Credit risk arises from the financial assets of the Authority, including cash and receivables. No collateral is held by the Authority. The Authority has not granted any financial guarantees.

Financial assets and liabilities arising from insurance contracts are stated in the Statement of Financial Position at the amount that best represents the maximum credit risk exposure at balance date.

Credit risk associated with the Authority's financial assets, other than receivables, is managed through the selection of counterparties and establishment of minimum credit rating standards. The Authority's exposure to credit risk is considered to be minimal.

notes to the financial statements
for the year ended 30 June 2017

Cash

Cash comprises cash on hand, balances held at private financial institutions, term deposits with a maturity of less than 3 months and bank balances within the NSW Treasury Banking System. Interest is earned on daily bank balances on funds in the NSW Treasury Banking System at the Reserve Bank of Australia's prevailing cash rate. The TCorp IM Cash Fund is discussed in (d) below.

Receivables – trade debtors

Collectability of trade debtors is reviewed on an ongoing basis. Procedures have been established to recover outstanding amounts, including letters of demand. Debts which are known to be uncollectible are written off. An allowance for impairment is raised when there is objective evidence that the Authority will not be able to collect the amount due. This evidence includes past experience, and current and expected changes in economic conditions and debtor credit ratings. Sales are made on 30 day terms.

There were no debtors past due or considered impaired at 30 June 2017 (30 June 2016 – Nil).

There are no debtors past due or impaired whose terms have been re-negotiated.

(c) Liquidity risk

Liquidity risk is the risk that the Authority will be unable to meet its payment obligations when they fall due. The Authority continuously manages risk through monitoring of future cash flows and maturities planning to ensure adequate holding of high quality liquid assets. The objective is to maintain a balance between continuity of funding and flexibility through the use of overdrafts, loans and other advances, if applicable.

The Authority does not have any loans payable and no assets have been pledged as collateral. The Authority's exposure to liquidity risk is deemed insignificant based on current assessment of risk.

The liabilities are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in NSW Treasury Circular 11/12.

notes to the financial statements

for the year ended 30 June 2017

The table below summarises the maturity profile of the Authority's financial liabilities, together with the interest rate exposure.

Maturity analysis and interest rate exposure of financial liabilities

	Weighted Average Effective Interest Rate %	Nominal Amount[1] $'000	Interest Rate Exposure $'000 Fixed rate $'000	Variable rate $'000	Non-interest bearing $'000	Maturity Dates $'000 <1 year $'000	1–5 years $'000	>5 years $'000
2017								
Payables	N/A	181	-	-	181	181	-	-
2016								
Payables	N/A	212	-	-	212	212	-	-

Notes:
1 The amounts disclosed are the contractual undiscounted cash flows of each class of financial liabilities based on the earliest date on which the Authority can be required to pay. The tables include both interest (if applicable) and principal cash flows and therefore may not reconcile to the Statement of Financial Position.

(d) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Authority's exposures to market risk are primarily through other price risk associated with the movement in the unit price of the TCorp Investment Facilities.

The effect on net result and equity due to a reasonably possible change in risk variable is outlined in the information below, for interest rate risk and other price risk. A reasonably possible change in risk variable has been determined after taking into account the economic environment in which the Authority operates and the time frame for the assessment (i.e. until the end of the next annual reporting year). The sensitivity analysis is based on risk exposures in existence at the statement of financial position date. The analysis assumes that all other variables remain constant.

Interest rate risk

The Authority's exposure to interest rate risk is set out below:

	Carrying Amount $'000	-1% Profit $'000	-1% Equity $'000	+1% Profit $'000	+1% Equity $'000
2017					
Cash and cash equivalents	1,463	(15)	(15)	15	15
2016					
Cash and cash equivalents	1,133	(11)	(11)	11	11

A reasonably possible change of +/- 1% is used, consistent with current trends in interest rates (based on official RBA interest rate volatility over the last five years). The basis will be reviewed annually and amended where there is a structural change in the level of interest rate volatility.

notes to the financial statements

for the year ended 30 June 2017

Other price risk

Exposure to other price risk arises through the investment in the TCorp Investment Facilities. The Authority holds units in the following investment trusts.

Facility	Investment Section	Investment Horizon	2017 $'000	2016 $'000
Cash facility	Cash and money market instruments	Up to 1.5 years	1,060	1,147
Australian equities	Australian shares	7 years and over	205	217
International equities hedged	International shares	7 years and over	84	86
International equities unhedged	International shares	7 years and over	205	220
Emerging market equities	Emerging market shares	7 years and over	82	81
Listed property	Listed property	7 years and over	123	138
Multi asset	Multi asset class	7 years and over	124	122
Bonds	Bonds	7 years and over	1,161	1,202

The unit price of each facility is equal to the total fair value of net assets held by the facility divided by the number of units on issue for that facility. Unit prices are calculated and published daily.

TCorp as trustee for each of the above facilities is required to act in the best interest of the unit holders and to administer the trusts in accordance with the trust deeds. As trustee, TCorp has appointed external managers to manage the performance and risks of each facility in accordance with a mandate agreed by the parties. TCorp has also leveraged off internal expertise to manage certain fixed income assets for the facilities. A significant portion of the administration of the facilities is outsourced to an external custodian.

Investment in the facilities limits the Authority's exposure to risk, as it allows diversification across a pool of funds, with different investment horizons and a mix of investments.

TCorp provides sensitivity analysis information for each of the investment facilities, using historically based volatility information collected over a ten-year year, quoted at two standard deviations (i.e. 95% probability). The TCorp investment facilities are designated at fair value through profit or loss and therefore any change in unit price impacts directly on profit (rather than equity). A reasonably possible change is based on the percentage change in unit price (as advised by TCorp) multiplied by the redemption value as at 30 June each year for each facility (balance from investment facility statement).

Facility		Change in Unit Price 2017 %	Impact on Net Result 2017 $'000	Change in Unit Price 2016 %	Impact on Net Result 2016 $'000
Cash facility	+/-	1	11	1	11
Australian shares sector	+/-	28	57	28	61
International shares hedged sector	+/-	15	13	15	13
International shares unhedged sector	+/-	25	51	24	53
Emerging market shares sector	+/-	19	15	19	15
Listed property sector	+/-	38	47	38	52
Australian Bond sector	+/-	6	70	6	72
Multi asset class sector	+/-	9	11	10	12

notes to the financial statements

for the year ended 30 June 2017

(e) Fair value estimation

The carrying amounts of the Authority's financial assets and liabilities at the end of the reporting year approximated their fair values as all financial assets and liabilities held were either at fair value at the end of the reporting year ('marked to market') or were short term in nature.

The financial assets and liabilities are classified in accordance with the following fair value measurement hierarchy:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices), and
- Level 3 – inputs for the assets or liabilities that are not based on observable market data.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2017				
Financial assets at fair value				
TCorp Investment facility	-	1,984	-	1,984
Total	-	1,984	-	1,984
2016				
Financial assets at fair value				
TCorp Investment facility	-	2,066	-	2,066
Total	-	2,066	-	2,066

(The tables above include only financial assets, as no financial liabilities were measured at fair value in the Statement of Financial Position.)

The value of the Investments is based on the entity's share of the value of the underlying assets of the facility, based on the market value. All of the facilities are valued using 'redemption' pricing.

Transfer between levels

The Authority recognises transfers between levels of the fair value hierarchy at the end of the reporting report during which the transfer has occurred. There were no transfers during the year ended 30 June 2017 (Nil – 2016).

notes to the financial statements

for the year ended 30 June 2017

12. Liabilities – Payables

	2017 $'000	2016 $'000
Accrued claims costs	71	71
Unearned Injury Prevention levies	20	17
Accrued Operating Expenses	46	34
Service fees payable	64	107
GST payable	42	-
Total Payables	**243**	**229**

These amounts represent liabilities for goods and services provided to the Authority and other amounts. Payables are recognised initially at fair value, usually based on the transaction cost or face value. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

Details regarding credit risk, liquidity risk and market risk, including a maturity analysis of the above payables are disclosed in Note 11.

13. Liabilities – Unearned premium reserve & unexpired risk

	2017 $'000	2016 $'000
Unearned premium income	399	426
Unexpired risk liability	28	-
	427	**426**

(a) Unexpired risk liability

	2017 $'000	2016 $'000
Unexpired risk liability as at 1 July and 1 September for 2016	-	-
Movement in the unexpired risk liability recognised in the Statement of Comprehensive Income	28	-
Unexpired risk liability as at 30 June 2017	**28**	**-**

notes to the financial statements

for the year ended 30 June 2017

(b) Calculation of unexpired risk liability

	2017 $'000	2016 $'000
Unearned premium liability relating to contracts issued under the Sporting Injuries Insurance Scheme (A)	399	426
Central estimate of the present value of expected future cash flows arising from future claims on contracts issued under the Sporting Injuries Insurance Scheme	285	283
Risk Margin (75% Probability of Sufficiency)	142	141
(B)	**427**	**424**
Unexpired risk liability (B)-(A) (zero minimum)	**28**	**-**

The process for determining the overall risk margin, including the way in which diversification of risks has been allowed for is discussed in Note 14. As with outstanding claims, the overall risk margin is intended to achieve a 75% probability of adequacy.

14. Liabilities – Provision for outstanding claims

	2017 $'000	2016 $'000
Outstanding Claims	**2,123**	**2,101**

The Authority manages the Sporting Injuries Insurance Scheme. The Scheme covers registered participants of sporting organisations for injury while engaged in specific activities or events. The Scheme provides capital lump sum benefits for injuries that lead to a prescribed percentage of permanent loss of use or fatality.

Provision is made at year end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Authority.

notes to the financial statements

for the year ended 30 June 2017

The reconciliation and dissection of the movement in discounted outstanding claims liability for the Authority is as follows:

	2017 $'000	2016 $'000
Central Estimate	1,312	1,308
Claims handling costs	262	262
Risk margin	646	610
Outstanding claims liability – undiscounted	**2,220**	**2,180**
Discount to present value	(97)	(79)
Liability for Outstanding Claims – discounted	**2,123**	**2,101**
At 1 July and 1 September for 2016	2,101	2,277
Reconciliation of discounted risk margin under AIFRS	30	(10)
Effect of changes in experience and assumptions on claims occurring in prior years	(258)	(113)
Increase in claims incurred arising from claims occurring in current year	676	493
Claims payments during the year	(426)	(476)
At 30 June 2017	**2,123**	**2,101**

Actuarial assumptions and method

The Authority writes long tailed insurance business. The process for determining the value of outstanding claims liabilities is described below.

Actuarial assumptions

The actuarial valuation at 30 June 2017 was performed by Pricewaterhouse Coopers Consulting (Australia) (PwC). The assumptions used by PwC Consulting in determining the outstanding claims liabilities as at 30 June 2017 were:

	2017	2016
Claims handling expense	20%	20%
Discount rate	2.2%	1.6%
Inflation	0%	0%
Superimposed inflation	0%	0%

Claims handling expense assumptions have been expressed as a claim cost as a percentage of claim payments. The expected cost to settle future claims has been applied to the projected payments to estimate the outstanding claims handling expense liability.

notes to the financial statements

for the year ended 30 June 2017

Discount Rate

Discount rates are derived from market yields on Commonwealth Government securities.

Inflation

No allowance has been made for future claims inflation. Past claims are fixed by the benefit schedules as specified by the *Sporting Injuries Insurance Act 1978* and the Authority has assumed that there are no future legislation changes that will affect the level of benefits paid in respect of past claims. The introduction of the *Sporting injuries Regulation 2014* has had no impact on the level of benefits as it only changed the impairment thresholds for a person to qualify for benefits.

Superimposed Inflation

Superimposed inflation occurs due to non-economic effects such as court settlements increasing at a faster rate than wages or CPI inflation. As the benefits are fixed by legislation, the Authority has not made an allowance for superimposed inflation. Hence to the extent that they are present in the historic experience, the valuation methodology makes an implicit allowance for superimposed inflation in claims cost.

notes to the financial statements

for the year ended 30 June 2017

Claims Development table

The following table shows the development of undiscounted outstanding claims relative to the ultimate expected claims for the most recent accident years for the Sporting Injuries Schemes.

Accident year	2006–2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	Total $'000
Estimate of ultimate claims cost								
At end of accident year	409	381	365	712	731	504	736	3,838
One year later	695	260	378	755	852	556		3,496
Two years later	856	320	385	679	753			2,993
Three years later	1,168	308	541	570				2,587
Four years later	1,193	190	459					1,842
Five years later	2,028	194						2,222
Six years later	1,760							1,760
Seven years later	1,575							1,575
Eight years later	1,274							1,274
Nine years later	1,108							1,108
Ten years and later	898							898
Current estimate of cumulative claims cost	1,618	194	459	570	753	556	736	4,886
Cumulative payments	(1,566)	(157)	(407)	(468)	(587)	(242)	(147)	(3,574)
Outstanding claims – undiscounted	52	37	52	102	166	314	589	1,312
Discount								(97)
2005 and prior								-
Claims handling expenses								262
Outstanding claims excluding risk margin								**1,477**
Risk Margin								646
Final Outstanding claims including risk margin								**2,123**

notes to the financial statements

for the year ended 30 June 2017

Weighted average expected term to settlement of the outstanding claims

The weighted average expected term to settlement from the reporting date of the outstanding claims is estimated to be 2.5 years for the Scheme (2016 – 2.2 years).

Risk Margin

The overall risk margin was determined allowing for the relative uncertainty of the outstanding claims estimate. Uncertainty was analysed using stochastic modelling and also taking into account potential uncertainties relating to the actuarial models and assumptions, the quality of the underlying data used in the models, the general insurance environment, the underlying characteristics of business written and the impact of legislative reform.

The estimate of uncertainty is greater for long tailed classes when compared to short tailed classes due to the longer time until settlement of the outstanding claims.

The assumptions regarding uncertainty were applied to the central estimates of the liability for the Sporting Injuries Insurance Scheme only and are intended to result in a 75% probability of adequacy. The overall risk margin applied is 41% (2016 39%).

Uncertainty in estimation process

The estimated cost of claims includes direct expenses to be incurred in settling claims. The Authority takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported ('IBNR') is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Authority, where more information about the claim event is generally available. IBNR claims may often not be apparent to the insured until many years after the incident giving rise to the claim. In calculating the estimated cost of unpaid claims the Authority uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- the high level of severe injury claims reported in the latest accident years;
- the change in mix of sporting injuries over time;
- limitations of historical information;
- outcomes remain dependent on future events, including legislative, social and economic forces;
- inherent volatility in the portfolio due to the small number of claims.

Uncertainty can also arise from the process of selecting a simplified model and assumptions since it is difficult to reflect reality completely in a model. Erroneous data can cause additional issues with selecting appropriate assumptions. The inherent randomness in the claims process means that experience can differ to expected even if the modeling and assumptions were perfect.

notes to the financial statements

for the year ended 30 June 2017

Sensitivity analysis

The Authority conducts a sensitivity analysis to quantify the exposure to risk of changes in the key underlying variables. The valuations included in the reported results are calculated using certain assumptions about these variables as disclosed above. The movement in any key variable will impact the performance and equity of the Authority. The tables below describe how a change in each assumption will affect the insurance liabilities and show an analysis of the sensitivity of the net result and equity to changes in these assumptions. There are no recoveries in the Sporting Injuries Insurance Scheme.

	Movement in variable	2017 Impact on Net Result $'000	2017 Impact on Liabilities $'000
Expenses	5%	(88)	88
Expenses	-5%	88	(88)
Discount rate	1%	41	(41)
Discount rate	-1%	(43)	43

	Movement in variable	2016 Impact on Net Result $'000	2016 Impact on Liabilities $'000
Expenses	5%	(88)	88
Expenses	-5%	88	(88)
Discount rate	1%	45	(45)
Discount rate	-1%	(47)	47

15. Contingent liabilities and contingent assets

The Authority does not have any known contingent liabilities or assets at reporting date.

End of audited financial statements

big corp

big corp financial statements

for the year ended 30 June 2017

Notes to the financial statements

Actuarial and Insurance Consultants

Actuarial Certificate
Outstanding Claims Liabilities at 30 June 2017

Finity Consulting Pty Ltd (Finity) has been contracted by Insurance & Care NSW (icare) to estimate the outstanding claims liabilities of the Building Insurers' Guarantee Corporation (BIG Corp) as at 30 June 2017.

Data

Finity has relied on the completeness and accuracy of the data provided by icare for this valuation. We have also placed significant reliance on the information provided for previous valuations undertaken for BIG Corp. We have not independently audited the data but it was reviewed for reasonableness and internal consistency. The accuracy of our results is dependent on the accuracy and completeness of the underlying data.

Basis of our Estimates

We have made central estimates of the outstanding claims liabilities; this means that the valuation assumptions have been selected such that our estimates of these liabilities contain no deliberate overstatement or understatement. Our estimates:

- Are discounted, using a risk-free discount rate, to allow for the time value of money
- Contain an allowance for associated claims handling expenses.

Given the inherent uncertainty in any central estimate of insurance liabilities, icare may choose to hold an additional margin when reporting the provision in the accounts. Furthermore, icare can decide on the level of margin to hold in the accounts. We understand that under icare's policy, the accounting provision for BIG Corp is required to be a central estimate, i.e. with a zero risk margin.

Valuation Results

Finity estimates the outstanding claims liability for BIG Corp to be $32.0 million. The components of the outstanding claims liability are shown in Table 1.

Table 1 – Outstanding Claims Liability at 30 June 2017

	$'000
Undiscounted:	
Case Estimates	29,244
Future Development	1,898
Sub Total	31,142
Claims Handling Expenses	1,557
Undiscounted Total	32,699
Impact of Discounting	(715)
Discounted Total	31,984

It is a decision for icare to determine the amount adopted in the accounts.

finity
Actuarial and Insurance Consultants

Uncertainty

There is inherent uncertainty in estimates of outstanding claims liabilities. Claims outcomes remain dependent on future events, including legislative, social and economic forces. A key source of the uncertainty in the valuation is that as the BIG Corp scheme is now deep into run-off, individual large claims drive the outcome.

We have prepared our estimates on the basis that they represent our current assessment of the likely future experience of BIG Corp. However, potentially material deviations of the actual experience from our estimates are normal and to be expected.

Reports

Full details of data, analysis and results for the valuation of the above schemes are set out in a separate letter titled “Review of the Building Insurers’ Guarantee Corporation at 30 June 2017”, dated 28 July 2017.

Relevant Standards

Our estimates and letter are prepared in accordance with Australian Accounting Standard AASB137 and the Actuaries Institute’s Professional Standard 300.

Yours sincerely

Kane Boulton

Stephen Lee

Fellows of the Institute of Actuaries of Australia

31 August 2017

statement by the chairman and chief executive officer

for the year ended 30 June 2017

Building Insurers' Guarantee Corporation

Certificate under Section 41C(1B) and 41C(1C) of the *Public Finance and Audit Act 1983* and Clause 7 of the Public *Finance and Audit Regulation 2015*.

In the opinion of the Board of Directors:

1. the financial statements of the Building Insurers' Guarantee Corporation have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2015* and the Treasurer's Directions. They have also been prepared in accordance with Australian Accounting Standards (which include Australian Accounting Interpretations) and other authoritative pronouncements of the Australian Accounting Standards Board.

2. the financial statements for the year ended 30 June 2017 exhibit a true and fair view of the position and transactions of the Building Insurers' Guarantee Corporation and;

3. the directors are not aware of any circumstances as at the date of this certificate which would render any particulars included in the financial statements misleading or inaccurate.

Signed on behalf of the Board of Directors

Michael Carapiet
Chairman
Insurance and Care NSW
25 September 2017

Vivek Bhatia
Chief Executive Officer
Insurance and Care NSW
25 September 2017

INDEPENDENT AUDITOR'S REPORT

Building Insurers' Guarantee Corporation

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of the Building Insurers' Guarantee Corporation (the Corporation), which comprise the statement of financial position as at 30 June 2017, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information.

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Corporation as at 30 June 2017, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015.

My opinion should be read in conjunction with the rest of this report.

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the Corporation in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies
- precluding the Auditor-General from providing non-audit services.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

The Chief Executive's Responsibility for the Financial Statements

The Chief Executive Officer is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the PF&A Act, and for such internal control as the Chief Executive Officer determines is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Executive Officer must assess the Corporation's ability to continue as a going concern except where the Corporation will be dissolved by an Act of Parliament or otherwise cease operations. The assessment must disclose, as applicable, matters related to going concern and the appropriateness of using the going concern basis of accounting.

Auditor's Responsibility for the Audit of the Financial Statements

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf. The description forms part of my auditor's report.

My opinion does *not* provide assurance:

- that the Corporation carried out its activities effectively, efficiently and economically
- about the assumptions used in formulating the budget figures disclosed in the financial statements
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.

A Oyetunji
Director, Financial Audit Services

29 September 2017
SYDNEY

statement of comprehensive income

for the year ended 30 June 2017

	Notes	2017 $'000	2016 $'000
Revenue			
Recoveries	2(i)	193	7,697
Investment income	2(ii)	928	1,316
Total Revenue		**1,121**	**9,013**
Expenses excluding losses			
Claims incurred	3	(1,596)	775
Service fees	4	223	-
Other expenses	4	25	292
Total expenses excluding losses		**(1,348)**	**1,067**
Net result		**2,469**	**7,946**
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME		**2,469**	**7,946**

The accompanying notes form part of these financial statements.

statement of financial position

as at 30 June 2017

	Notes	2017 $'000	2017 $'000
Assets			
Cash and cash equivalents	5	60,523	65,816
Receivables	6	536	695
Total Assets		**61,059**	**66,511**
Liabilities			
Payables	7	297	301
Provisions	8	31,984	39,901
Total Liabilities		**32,281**	**40,202**
Net Assets		**28,778**	**26,309**
Equity			
Accumulated funds		**28,778**	**26,309**

The accompanying notes form part of these financial statements.

statement of changes in equity

for the year ended 30 June 2017

	Notes	Accumulated Funds $'000	Total $'000
Balance at 1 July 2016		**26,309**	**26,309**
Net result for the year		**2,469**	**2,469**
Other comprehensive income		-	-
Total comprehensive income		**2,469**	**2,469**
Transactions with owners in their capacity as owners		-	-
Balance at 30 June 2017		**28,778**	**28,778**
Balance at 1 July 2015		**18,363**	**18,363**
Net result for the year		**7,946**	**7,946**
Other comprehensive income		-	-
Total comprehensive income		**7,946**	**7,946**
Transactions with owners in their capacity as owners		-	-
Balance at 30 June 2016		**26,309**	**26,309**

The accompanying notes form part of these financial statements.

statement of cash flows

for the year ended 30 June 2017

	Notes	2017 $'000	2016 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Recoveries		210	7,855
Claims		(6,318)	(4,947)
Net Cash Flows from Scheme Activities		**(6,108)**	**2,908**
Interest received		1,145	1,085
Service fees		(66)	-
Other expenses		(264)	(50)
Net Cash Flow from Operating Activities	**5**	**(5,293)**	**3,943**
Net increase/(decrease) in cash and cash equivalents		**(5,293)**	**3,943**
Opening cash and cash equivalents		**65,816**	**61,873**
Closing cash and cash equivalents	**5**	**60,523**	**65,816**

The accompanying notes form part of these financial statements.

notes to the financial statements

for the year ended 30 June 2017

1. Summary of significant accounting policies

(a) Reporting entity

Building Insurers' Guarantee Corporation (the Corporation) is a reporting entity established under the *Home Building Act, 1989*. It was established by the NSW Government in 2001 after the collapse of HIH Insurance Limited (HIH)/ FAI Insurance (FAI) as a rescue package to protect home owners who were covered by HIH/FAI Home Warranty Insurance policies.

The Corporation is a not-for-profit entity (as profit is not its principal objective) and it has no cash generating units. The reporting entity is consolidated as part of the NSW Total State Sector Accounts.

Effective 1 July 2016 the Chief Executive Officer of NSW Self Insurance Corporation is also the Chief Executive Officer of the Corporation.

The financial statements for the year ended 30 June 2017 have been authorised for issue by the Chairman of the Board and the Chief Executive on behalf of the Board of Directors on 25 September 2017.

(b) Basis of preparation

These general purpose financial statements have been prepared in accordance with:

- Applicable Australian Accounting Standards (which include Australian Accounting Interpretations)
- *Public Finance & Audit Act 1983* and the *Public Finance & Audit Regulation 2015*.

Judgements, key assumptions and estimations by management are disclosed in the relevant notes to the financial statements. All amounts are rounded to the nearest thousand dollars and are expressed in Australian currency.

(c) Statement of compliance

The financial statements and notes comply with Australian Accounting Standards, which include Australian Accounting Interpretations.

(d) Goods and Service Tax

Revenue, expenses and assets are recognised net of Goods and Services Tax (GST), except that:

- the amount of GST incurred by the Corporation as a purchaser that is not recoverable from the Australian Tax Office is recognised as part of the cost of acquisition of an asset or as part of an item of expense; and
- Receivables and payables are stated in the Statement of Financial Position inclusive of GST.

Cash flows are included in the Statement of Cash Flows on a gross basis. However the GST components of cash flows arising from investing activities and financing activities which are recoverable from, or payable to, the Australian Tax Office are classified as operating cash flows.

notes to the financial statements

for the year ended 30 June 2017

(e) Comparative figures

Except where an Australian Accounting Standard permits, comparative information is disclosed in respect of the previous period for all amounts reported in the financial statements.

(f) New Australian Accounting Standards issued but not yet effective

Certain new standards and interpretations have recently been issued or amended but are not yet effective for the annual reporting period ended 30 June 2017. It is considered that the implementation of these standards will not have any material impact on the Corporation's financial statements.

The Corporation has not early adopted any new accounting standards, amendments and interpretations in compliance with NSW Treasury mandates per Treasury Circular NSW TC 17-04.

(g) New, revised or amended standards and interpretations

The Corporation has adopted all of the new, revised or amending Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are relevant and effective for the current reporting year.

Any significant impacts on the accounting policies of the Corporation from the adoption of these accounting standards and interpretations are disclosed in the relevant accounting policy.

The following new Australian Accounting Standards have not been applied and are not yet effective:

- AASB 9 *Financial Instruments*
- AASB 15, AASB 2014-5, AASB 2015-8 and AASB 2016-3 regarding Revenue from Contracts with Customers
- AASB 16 regarding leases
- AASB 1058 *Income of Not-for-profit Entities*
- AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107.
- AASB 2016-6 Amendments to Australian Accounting Standards – Applying AASB 9 with AASB 4 Insurance Contracts
- AASB 2016-7 Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities
- AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities
- AASB 2017-1 Amendments to Australian Accounting Standards – Transfer of Investment Property, Annual Improvements 2014–2016 Cycle and Other Amendments
- AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014–2016 Cycle.

These standards have no direct impact on the Corporation's financial results and are mainly concerned with disclosures.

notes to the financial statements

for the year ended 30 June 2017

2. Revenue

(a) Recoveries

The Corporation is entitled to the recovery revenue benefits due to insolvent insurers under the *Home Building Act, 1989*.

Recoveries are recognised as revenue when it is virtually certain the recovery will be made.

Other recoveries include recoveries of monies from builders for claims paid to homeowners.

	2017 $'000	2016 $'000
Recoveries revenue	**193**	**7,697**

(b) Investment income

Interest revenue is recognised using the effective interest method as set out in AASB 139 Financial Instruments: Recognition and Measurement.

	2017 $'000	2016 $'000
Interest received on Cash at bank	**928**	**1,316**

3. Claims incurred

Claim payments are funded by drawings collected from the Building Insurers' Guarantee Fund in accordance with Section 103P(3b) of the *Home Building Act, 1989*.

Under section 16D of the *Insurance Protection Tax Act 2001*, the Policy Holders Protection Fund must be applied to meet expenditure from the Building Insurers Guarantee Fund.

	2017 $'000	2016 $'000
Claims expenses	6,113	4,693
Claims handling	208	254
Movement in outstanding claims provision	(8,426)	(5,003)
Finance cost	509	831
	(1,596)	**775**

notes to the financial statements

for the year ended 30 June 2017

4. Service Fees and Other Expenses

	2017 $'000	2016 $'000
Personal services	-	162
Actuarial expenses	-	13
Audit fees – audit of financial statements	25	24
Service fees	223	-
Other	-	93
	248	**292**

In accordance with the *State Insurance and Care Governance Act 2015* from 1 July 2016, the Corporation receives services from icare. Under the arrangement some of the Corporation's costs are incurred by icare and recovered at cost from the Corporation. These services include the provision of staff, claims handling expenses, general business expenses and governance services.

The Corporations key management personnel are the Board of Directors of icare, the Chief Executive Officer of icare and their direct reports. All transactions with these keys management personnel are at arms length and are included in the service fee paid to icare for those personnel remunerated by icare.

5. Cash and Cash Equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank.

	2017 $'000	2016 $'000
Cash at bank	60,523	65,816
	60,523	**65,816**

Reconciliation of Cash Flows from Operating Activities to Net Results

	2017 $'000	2016 $'000
Net cash flow provided by/(used) in operating activities	**(5,293)**	**3,943**
Decrease in provisions	7,917	4,172
(Decrease)/Increase in receivables	(159)	38
Decrease/(Increase) in payables	4	(207)
Net Result	**2,469**	**7,946**

notes to the financial statements

for the year ended 30 June 2017

6. Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Other recoveries receivable are assessed on an ongoing basis by the claims managers. They are recognised when recovery is virtually certain to take place.

	2017 $'000	2016 $'000
Recoveries receivable	-	17
GST receivable	37	24
Prepayments	62	-
Accrued Interest	437	654
Total receivables	**536**	**695**

Details regarding credit risk, liquidity risk and market risk including financial assets that are either past due or impaired, are disclosed in Note 10.

7. Payables

These amounts represent liabilities for goods and services provided to the Corporation and other amounts. Payables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

	2017 $'000	2016 $'000
Service fees	157	-
Accrued expenses	140	301
	297	**301**

Details regarding credit risk, liquidity risk and market risk including maturity analysis on payables are disclosed in Note 10.

8. Provisions

Provisions are recognised when the Corporation has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The liability for claims includes:

- claims incurred but not yet paid
- incurred but not enough reported (IBNER)
- expected claims handling costs.

There are no claims incurred but not reported (IBNR).

notes to the financial statements

for the year ended 30 June 2017

The liability for outstanding claims is measured as the central estimate of the present value of expected future payments against claims incurred at reporting date. When it is virtually certain that some or all of a provision will be reimbursed, the reimbursement is recognised as a separate asset.

Where there is a material effect due to the time value of money, a provision is discounted.

The expected future payments are estimated on the basis of the ultimate cost of the settling of claims, which is affected by factors arising during the period to settlement such as normal inflation and "superimposed inflation".

Superimposed inflation refers to factors such as in court awards, to increase at levels in excess of economic inflation. The expected future payments are then discounted to a present value at the reporting date using discount rates based on investment opportunities available on the amounts of funds sufficient to meet claims as they become payable.

	2017 $'000	2016 $'000
Case estimates	29,244	36,195
IBNER	1,898	2,705
Claims handling expenses	1,557	1,945
Discount to present value	(715)	(944)
Central estimate	**31,984**	**39,901**
Opening Balance	39,901	44,073
Less: Claims Provision released	(2,105)	(16)
Less: Claims paid	(6,321)	(4,987)
Add: Finance Costs	509	831
Carrying amount at end of year	**31,984**	**39,901**

An actuarial review of claims was carried out as at 30 June 2017. The purpose of this review was to ascertain the possible liability of the Building Insurers' Guarantee Corporation. The outstanding claim estimate of $32.0 million (2016 $39.9 million) represents the central estimate. The central estimate includes allowances for the cost of claims administration.

The actuarial review has noted significant uncertainty variations may occur between the outstanding claim estimate and ultimate cost of claims due to various factors including:

- As the scheme is now deep into run-off, individual large claims drive the outcome;
- The number of settlements and the volume of claim payments continue to fluctuate, making it more difficult to estimate outstanding amounts at future balance dates.

The weighted average expected term to settlement from the balance date of the outstanding claims is estimated to be 1.3 years (2016: 1.5 years). The timing of claim settlement and payments is very uncertain, so there may be considerable variation in the actual emergence of payments from year to year.

The following average inflation rates and discount rates were used in measuring the liability for outstanding claims:

	2017	2016
Inflation rate		
Current year	2.0%	1.75%
Future years	2.21–2.31%	2.5%
Superimposed inflation	3.0%	3.0%
Discount rate	1.7%	1.6%

notes to the financial statements

for the year ended 30 June 2017

9. Budget Review

Statement of Comprehensive Income

	Notes	Actual 2017 $'000	Budget 2017 $'000
Revenue			
Recoveries	2(i)	193	-
Investment income	2(ii)	928	1,077
Total Revenue		**1,121**	**1,077**
Expenses excluding losses			
Claims incurred	3	(1,596)	-
Service fees	4	223	(321)
Other expenses	4	25	-
Total Expenses excluding losses		**(1,348)**	**(321)**
Net Results		**2,469**	**756**
Other Comprehensive Income		**-**	**-**
Total comprehensive income		**2,469**	**756**

Commentary

Net result for the year is favourable to budget driven by claims experience, with savings in expected case estimates and favourable recoveries.

notes to the financial statements

for the year ended 30 June 2017

Statement of Financial Position

	Notes	Actual 2017 $'000	Budget 2017 $'000
Assets			
Cash and cash equivalents	5	60,523	40,101
Receivables	6	536	380
Total assets		**61,059**	**40,481**
Liabilities			
Payables	7	297	300
Provisions	8	31,984	12,081
Total Liabilities		**32,281**	**12,381**
Net assets		**28,778**	**28,100**
Equity			
Accumulated funds		**28,778**	**28,100**

Commentary

Cash and cash equivalents favourable to budget due to lower than expected payments on open and finalised claims. The small number of open claims means that payment experience in the year can be volatile versus expectations.

Provisions represent the actuarial estimate of liabilities. The favourable position in cash is offset by unfavourable provisions against budget, the differences being due to the expected timing of payments.

Total net assets are in line with budget.

notes to the financial statements

for the year ended 30 June 2017

Statement of Cash Flows

	Notes	Actual 2017 $'000	Budget 2017 $'000
Cash flows from operating activities			
Recoveries		210	-
Claims		(6,318)	(32,702)
Total Scheme		**(6,108)**	**(32,702)**
Interest received		1,145	1,077
Service fees		(66)	(321)
Other expenses		(264)	-
Net cash provided by/(used in) operating activities	**5**	**(5,293)**	**(31,946)**
Net increase/(decrease) in cash and cash equivalents		**(5,293)**	**(31,946)**
Opening cash and cash equivalents		65,816	72,047
Closing cash and cash equivalents	**5**	**60,523**	**40,101**

Commentary

Cash and cash equivalents favourable due to lower than expected payments.

notes to the financial statements

for the year ended 30 June 2017

10. Financial Instruments

The Corporation's principal financial instruments are outlined below. These financial instruments arise directly from the Corporation's operations or are required to finance those operations. The Corporation does not enter into financial instruments, including derivative financial instruments, for speculative purposes.

The Corporation's main risks arising from financial instruments are outlined below, together with the Corporation's objectives, policies and processes for measuring and managing risk. Further quantitative and qualitative disclosures are included through these financial statements.

Management has overall responsibility for the establishment and oversight of risk management, and reviews and sets policies for managing each of these risks. Risk management policies are in place to establish frameworks and processes that identify and analyse the risks faced by the Corporation, set risk limits and controls, and monitor risks.

Financial instrument categories

	Notes	Category	Carrying amount 2017 $'000	Carrying amount 2016 $'000
Financial Assets				
Cash and cash equivalents	5	N/A	60,523	65,816
Receivables*	6	Receivables (measured at amortised cost)	437	671
Financial liabilities				
Payables**	7	Payables (measured at amortised cost)	297	301

* Excludes statutory receivables and prepayments.

** Excludes statutory payables and unearned income.

Risk management

The activities of the Corporation expose it to a variety of financial risks. These are:

- Market risks
  - interest rate risk
- Credit risk
- Liquidity risk.

Market risks

The effects on the Corporation's operating result due to reasonably possible changes in risk variables are outlined in the information below, for interest rate risk. A reasonably possible change in each risk variable has been determined after taking into account the economic environment in which the Corporation operates and the time frame for the assessment (i.e. until the end of the next annual reporting period). The sensitivity analysis is based on risk exposures in existence at the reporting date. The analysis is performed on the same basis as 2016. The analysis assumes that all other variables remain constant.

notes to the financial statements

for the year ended 30 June 2017

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The following table provides the sensitivity analysis of interest rate risk affecting applicable financial assets on the operating result and equity of the Corporation. A reasonably possible change of +/- 1% is used, consistent with current trends in interest rates. The basis will be reviewed annually and amended where there is a structural change in the level of interest rate volatility.

		$'000			
		-1%		+1%	
	Carrying amount	Net Result	Equity	Net Result	Equity
2017					
Cash and cash equivalents	60,523	(605)	(605)	605	605
2016					
Cash and cash equivalents	65,816	(658)	(658)	658	658

Credit risk

Credit risk arises when there is the possibility of the Corporation's debtors defaulting on their contractual obligations, resulting in a financial loss to the Corporation. The maximum exposure to credit risk is generally represented by the carrying amount of the financial assets (net of any allowance for impairment).

Credit risk arises from the financial assets of the Corporation, including cash and receivables. Cash is held within the Treasury Banking System (TBS). Interest is earned on daily bank balances at the TBS interest rate.

notes to the financial statements

for the year ended 30 June 2017

Receivables

The Corporation does not receive any collateral for receivables.

The financial assets that are past due or considered impaired are included in the table below.

	Total $'000	Past due but not impaired $'000			Considered impaired $'000
		< 3 months overdue	3–6 months overdue	> 6 months overdue	
2017					
Receivables	-	-	-	-	-
2016					
Receivables	17	-	-	17	-

Credit risk applicable to receivables is detailed in the tables below.

	AAA $'000	AA+ $'000	AA $'000	AA- $'000	A+ $'000	A $'000	Other Ratings* $'000	Total $'000
2017								
Receivables	437	-	-	-	-	-	-	437
2016								
Receivables	654	-	-	-	-	-	17	671

*Short term ratings of A-2 or better, when counterparty has no long term rating or the long term rating is A or lower.

Concentration of credit risk

	Governments $'000	Commercial insurers $'000	Other $'000	Total $'000
2017				
Receivables	437	-	-	437
2016				
Receivables	654	-	17	671

notes to the financial statements

for the year ended 30 June 2017

Liquidity Risk

During the current year, there were no defaults on payables. No assets have been pledged as collateral. The Corporation's exposure to liquidity risk is deemed insignificant based on the current assessment of risk.

The payables are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in Treasury Circular TC11/12. If trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice or a statement is received.

The table below summarises the maturity profile of the Corporation's financial liabilities.

			Interest rate exposure			Maturity dates		
	Weighted average effective interest rate %	Nominal amount $'000	Fixed interest rate $'000	Variable interest rate $'000	Non-interest bearing $'000	< 1 year $'000	1-5 years $'000	> 5 years $'000
2017								
Payables	-	297	-	-	-	297	-	-
Total financial liabilities	**-**	**297**	**-**	**-**	**-**	**297**	**-**	**-**
2016								
Payables	-	301	-	-	-	301	-	-
Total financial liabilities	**-**	**301**	**-**	**-**	**-**	**301**	**-**	**-**

11. Contingent Liabilities

The Corporation is currently involved in nil (2016: nil) legal matters where financial settlement and costs may be awarded against it that has not already been included in the provision for outstanding claims.

12. Events after the Reporting Date

There are no events occurring after reporting date.

End of audited financial statements

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icare™

Insurance and Care NSW (icare)
October 2017
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